

# *Comparative Study on Monetary Policies Between Europe and America*

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**Abstract.** Against the backdrop of increasingly interconnected global financial markets and increasingly diverse economic landscapes, a nuanced understanding of monetary policies in major economies has become critically important for policymakers, investors, and scholars, as it shapes decisions and insights across domestic and international arenas. This article conducts a comparative study of monetary policies in Europe and the United States. Through comparative analysis, it first explores the similarities and differences in the monetary policy goals of the two regions. Then, various monetary policy tools used by the central banks of European countries and the United States were analyzed, and a comparative study of these tools was conducted. Finally, it examines the implementation effect of monetary policies from the perspectives of economic growth and employment. This study concludes that while both regions share core monetary policy functions, they exhibit notable divergence in goals, tools, and effects due to contextual differences, offering valuable insights for cross-regional learning, tool innovation, and enhanced international policy coordination in an era of persistent global uncertainties.

**Keywords:** Monetary Policy, European Countries, American Countries, Policy Comparison, Macroeconomic Regulation

## **1. Introduction**

Against the backdrop of increasingly interconnected global financial markets and increasingly diverse economic landscapes, a nuanced understanding of monetary policies in major economies has become critically important for policymakers, investors, and scholars, as it shapes decisions and insights across domestic and international arenas. Monetary policy is an important means for the authority and the central bank to intervene in the economy, serving as a pivotal lever to adjust money supply, interest rates, and credit conditions to achieve macroeconomic goals such as price stability, full employment, and sustainable growth. This article mainly elaborates on the research background and emphasizes the significance of monetary policy in the current complex economic environment. Through comparative analysis, it discusses the monetary policies in Europe and the United States. Through comparative analysis, this paper first explores the similarities and differences in the monetary policy goals of the two regions. Then, it analyzes the various monetary policy instruments employed by central banks in Europe and the United States, and conducts a comparative study of these tools. Finally, it examines the implementation effect of monetary policies

from the perspectives of economic growth and employment. The research questions include: What differences exist in the monetary policy objectives of Europe and the United States? What are the differences in their policy tools? And what are the differences in their impacts? They exhibit notable divergence in goals, tools, and effects due to contextual differences, offering valuable insights for cross-regional learning, tool innovation, and enhanced international policy coordination in an era of persistent global uncertainties.

## **2. Monetary policy objectives in European and American countries**

### **2.1. Objectives of monetary policy in the United States**

As the central bank of the United States, the Federal Reserve has a set of legal monetary policy goals. According to the Federal Reserve Act, the monetary policy goals of the Federal Reserve are to promote optimal employment levels, price stability, and moderate long-term interest rates [1]. These three goals are often referred to as the "dual mandate", with realizing maximum employment and stable price dynamics being the core dual objectives, while an appropriate long-term interest rate is the result of achieving the first two goals.

### **2.2. Objectives of monetary policy in European countries**

The European Central Bank's monetary policy is primarily oriented toward achieving price stability within the Eurozone [2]. The European Central Bank delineates price stability as the maintenance of the euro area's annual inflation rate below but close to 2% over the medium term.

The Bank of England's monetary policy framework is centered around maintaining price stability and supporting the government's economic objectives, including those for growth and employment. The UK government has set a target for the BoE to achieve an inflation rate of 2% [3].

## **3. Monetary policy tools in European and American countries**

### **3.1. Monetary policy tools**

#### **3.1.1. In the United States**

A diverse set of tools—including open market operations, the discount rate, and reserve requirements—is used by the Federal Reserve. This study will elaborate on open market operations in detail.

It is the most frequently used tool. The Federal Reserve's acquisition of securities results in the injection of reserves into the banking system, an increase in the money supply, a decline in short-term interest rates, and the stimulation of borrowing and spending. Conversely, selling securities reduces reserves, decreasing the money supply and raising interest rates to cool down an overheating economy [4]. An example related to the Open Market Operation is that in the 2020 pandemic, the Federal Reserve announced an "unlimited purchase of Treasury bonds" and simultaneously launched overnight and term repo operations to ease the run on short-term US dollar financing [5]. It laid the foundation for the recovery of the US economy from the impact of the epidemic.

### 3.1.2. In the European

The European Central Bank's principal monetary policy instrument is Main Refinancing Operations, which are regular open market operations that ensure the provision of the bulk of liquidity to the banking system [6]. Banks can borrow funds from the European Central Bank at the main refinancing rate, which is a key short-term interest rate for the euro area. The frequency is weekly, and it helps set the benchmark for short-term interest rates in the eurozone.

The Deposit Facility Rate serves as another policy measure, denoting the interest rate banks are granted for overnight deposits of excess reserves with the European Central Bank. A negative deposit facility rate discourages banks from hoarding reserves at the ECB and encourages them to lend the funds to other banks or to the real economy, thereby stimulating economic activity.

Also, the European Central Bank has implemented various asset purchase programs, such as the Public Sector Purchase Program and the Corporate Sector Purchase Program. The European Central Bank engages in the purchase of government and corporate bonds to expand the money supply, reduce long-term interest rates, and ensure liquidity provision to financial markets—actions that support economic growth and inflation [7].

### 3.1.3. In England

The Bank of England uses tools to meet its inflation target and support economic objectives.

As a case in point, the Bank Rate represents the interest rate paid by the Bank of England on commercial banks' reserve holdings and the rate applicable to its lending activities to commercial banks. Lowering the bank rate reduces borrowing costs, stimulating spending and investment. Raising it increases borrowing costs, curbing inflationary pressures.

The Bank of England can also engage in quantitative easing through the Asset Purchase Facility. By undertaking the purchase of government and corporate bonds from financial institutions, it facilitates an increase in the money supply and a decline in long-term interest rates, thereby fostering economic activity.

Besides, the common monetary policies used by the Bank of England also include the Term Funding Scheme and Reserve Requirements.

## 3.2. Comparison of monetary policy tools

When comparing the monetary policy tools of European countries with those of the United States, we can observe both notable similarities and distinct differences.

### 3.2.1. The similarities

All three central banks utilize open market operations as a key means to adjust the money supply and influence interest rates. For the Fed, it trades U.S. Treasury securities; the ECB conducts Main Refinancing Operations involving eligible assets; and the BoE engages in transactions through its Asset Purchase Facility. These operations allow central banks to inject or withdraw liquidity from the banking system, thereby guiding short-term and long-term interest rates.

Another similarity is the use of interest rate tools. The Fed's discount rate, the ECB's main refinancing rate and the BoE's Bank Rate all function as key interest rate levers. By adjusting these interest rates, the central bank can influence the borrowing costs of commercial banks, thereby affecting the interest rates faced by businesses and consumers, and consequently influencing spending and investment decisions [8].

### 3.2.2. The differences

When it comes to differences, the first one is the scope of asset purchases. The asset purchase program of the European Central Bank, such as the programme for public sector purchases and the programme for corporate sector purchases, has a wide range, including large-scale purchases of government bonds and corporate bonds of eurozone member states. The asset purchase tools of the Bank of England also involve the purchase of government and corporate bonds. In contrast, although the Federal Reserve conducts open market operations on US Treasury bonds and mortgage-backed securities, due to the unique structure of the US financial system, the background and scale of its asset purchases (especially during the quantitative easing period) are different. Apart from these factors, there are many deeper reasons that can explain these differences. The institutional framework plays a crucial role. The Eurozone will operate as a monetary union, and each member country has different fiscal policies. Therefore, the ECB's asset purchase program needs to take into account the economic heterogeneity of countries such as Germany, France, and Southern European countries. To prevent further deepening of fiscal imbalances, complex coordination is required. In contrast, the United States, with a unified fiscal and monetary system, can concentrate on stabilizing the national-level market and does not need to deal with policy conflicts between countries. There are also significant differences in the structure of financial markets. The largest and most liquid US Treasury market, of course, is the pillar of the Fed's open market operations. The government bond market in the Eurozone is in a state of disarray, and the liquidity and credit risk levels of member states have become diverse. Therefore, the European Central Bank (ECB) can only design a purchase procedure that can both meet the liquidity needs and address the issue of national risk perception. Although the United Kingdom is a single country, its financial market is much smaller than that of the United States and is highly concentrated. This has led the Bank of England to incorporate corporate bonds to a greater extent than the Federal Reserve, as the domestic corporate bond market plays a more prominent role in corporate financing in the UK. The scope of asset purchases cannot be separated from the policy goals.

The Long-Term Refinancing Operations of the European Central Bank is a unique tool. These operations provide banks with long-term liquidity at favorable terms, which is crucial for ensuring the stability of the eurozone banking system, especially considering the diverse economic conditions among member states. The Fed and BoE do not have a direct equivalent of such long-term, large-scale refinancing operations tailored to address the specific integration challenges of a monetary union [9].

Also, the Fed has a unique tool [10]. The Fed's Interest on Reserve Balances has become a central tool in its policy implementation framework in recent years. This tool enables the Federal Reserve to more precisely control the federal funds rate by adjusting the interest rates on reserve payments. The European Central Bank and the Bank of England refrain from adopting this mechanism. The European Central Bank relies more on its main refinancing rate and deposit arrangement rate to guide market interest rates, while the Bank of England uses bank interest rates and the regular financing program in a different dynamic manner.

## 4. Implementation effects of monetary policies in European and American countries

The Federal Reserve's implemented monetary policy has constituted a crucial factor in shaping the economic growth trajectory of the United States. During periods of economic downturn, such as the global financial crisis in 2008-2009 [11]. The United States actively lowered the federal funds rate to a level close to zero and launched a large-scale asset purchase program. Through public market

operations, it provided liquidity to the financial system, reduced loan prices, and enabled enterprises to obtain speculative loans at lower costs. This was achieved by increasing capital expenditures through purchasing new equipment and expanding factories, which promoted economic growth. This will help stabilize the financial market and restore investors' confidence. With the rebound of the stock market, the living standards of households have increased.

From the perspective of the Eurozone, as the economies of member states become more diversified, the impact of the ECB's monetary policy on economic growth has become more complex. The European Central Bank aims to promote growth while also maintaining price stability, which includes lowering the interest rate on bank deposits and implementing large-scale asset purchase programs.

Due to low interest rates, the loan costs for the government, enterprises and households have decreased. For instance, in countries with a large amount of public debt, the debt repayment costs can be reduced at a lower interest rate, and this money can be used for public infrastructure investment. However, the policy effects vary from one member state to another. In the economies of powerful countries like Germany, businesses are likely to take advantage of the low-interest-rate environment to invest, and thus can expect sustained growth. On the contrary, in the weaker countries of the Eurozone, such as Greece and Italy, due to structural problems such as high levels of non-performing assets, they are unable to enjoy the benefits of low interest rates [12].

The Bank of England was established to implement monetary policies such as interest rate cuts and quantitative easing to support economic growth. These policies maintained the liquidity of the financial system after the 2008 financial crisis and during the uncertainty caused by the UK's exit from the EU. As interest rates declined, mortgage loans became more accessible, supporting the housing market and consumer spending. However, the uncertainties related to Brexit have made the impact of monetary policy on economic growth more complicated [13]. Exchange rate fluctuations, concerns over trade barriers, and changes in business confidence have offset the positive effects of expansionary monetary policies, making sustained economic growth difficult.

## 5. Conclusion

To sum up, this study reveals both commonalities and distinctive features in the monetary policies of Europe and the United States amid the evolving global economic and financial landscape. This article conducts a systematic comparison of monetary policies in Europe and the United States from three core dimensions: policy goals, policy tools, and implementation effects. Through comparative analysis, several key findings have emerged, as well as their implications for theoretical understanding and practical decision-making.

From the perspective of policy goals, the monetary policies of Europe and the United States aim to maintain price stability, promote growth, and ensure employment. However, the Federal Reserve focuses on stabilizing employment during short-term economic cycles, while the European Central Bank needs each country in the region to stabilize prices and coordinate regional economies. In terms of policy measures, the Federal Reserve mainly employs the interest rate corridor mechanism and flexibly utilizes open market operations, quantitative easing policies, and quantitative tightening policies. The European Central Bank relies on three-stage interest rate shocks and is using innovative measures such as refinancing to address the regional differences in liquidity. The impact of the stable economic crisis is gradually easing, but the dominance of the US dollar and the US financial market is more directly influenced by the policies of the US Federal Reserve Bank than those of the European Central Bank. The differences caused by the fiscal and economic restructuring

of member states are being constrained, and regional disparities are emerging. Both have potential problems, such as the expansion of balance sheets due to abnormal policies.

In short, the monetary policies of Europe and the United States share a common core function but differ in terms of goals, tools and effects due to unique contexts. Given the persistence of global uncertainties, central banks should draw on cross-regional experiences, adjust tools to address new challenges and enhance international coordination to achieve sustainable growth.

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