Monetary policy transmission in segmented markets

Author:Jens EisenschmidtYiming MaAnthony Lee Zhang

Date:2022-08-11

Keyword:NA

Url:[click here](https://www.ecb.europa.eu/pub/research/working-papers/html/papers-2022.include.en.html)

Attachment:[click here](https://www.ecb.europa.eu//pub/pdf/scpwps/ecb.wp2706~ba900f49e8.en.pdf?2ea68aaf84df4caed97cb2a9c8986438)

From:ECB-working\_paper

AbstractWe show that dealer market power impedes the pass-through of monetary policy in repo markets, which is an important first stage of monetary policy transmission. In the European repo market, most participants do not have access to trade on centralized exchanges. Rather, they rely on OTC intermediation by a small number of dealers that exhibit significant market power. As a result, the passthrough of the ECB’s policy rate to the majority of non-dealer banks and non-banks is inefficient and unequal in repo markets. Our estimates imply that a secured funding facility like the Fed’s RRP may alleviate dealer market power and improve the transmission efficiency of monetary policy to banks and non-bank financial institutions.JEL CodeE4 : Macroeconomics and Monetary Economics→Money and Interest RatesE5 : Macroeconomics and Monetary Economics→Monetary Policy, Central Banking, and the Supply of Money and CreditG2 : Financial Economics→Financial Institutions and Services