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# Heterogeneous monetary transmission process in the Eurozone: Does banking competition matter?

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**Abstract**

This paper examines the implications of banking competition for the interest rate channel in the Eurozone over the period 2003-2010. We use an Error Correction Model (ECM) approach to measure the long-run and short-run relationships between money market rates, bank interest rates, and our competition proxy, namely, the Lerner index. We find that competition (i) reduces the bank lending interest rates, (ii) increases the long-term interest pass-through and (iii) speeds up the adjustment towards the long-run equilibrium in the short-run. Therefore, increased competition would improve the effectiveness of monetary policy transmission through the interest rate channel, and from this point of view should be fostered in the Eurozone. Finally even if we observe that other factors related to the recent crisis matter for monetary policy transmission, bank competition remains a key determinant of the pass-through.

**Keywords**: interest rate pass-through; bank competition; Lerner index; euro area countries; error-correction model.

**JEL Codes**: C23; D4; E43 ; E52 ; G21 ; L10



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