

# Monetary Policy Transmission and the Role of High-Quality Liquid Assets

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## Abstract

Does monetary policy transmit heterogeneously across banks depending on their holdings of high-quality liquid assets? Since the aftermath of the global financial crisis, the US banking system has been characterized by significant holdings of high-quality liquid assets. This paper analyzes the implications of the recent rise in high-quality liquidity in the US banking system for monetary policy transmission. I use bank-level data to evaluate the monetary policy pass-through conditional on the level of high-quality liquidity. Evidence suggests that banks with more HQ-liquid balance sheets reduce liquidity creation and loan growth in response to increased funding costs due to monetary tightening shocks.

**Key words:** Banking Liquidity Creation, Profitability, Monetary Policy, High-quality liquid assets, Local Projections