Working Papers on Economics - Short-Term Liquidity Contagion in the Interbank Market

Download Keep in mind
The series Working Papers on Economics is published by the Office for Economic Studies at the *Banco de la República* (Central Bank of *Colombia*). It contributes to the dissemination and promotion of the work by researchers from the institution. This series is indexed at Research Papers in Economics (RePEc).

On multiple occasions, these works have been the result of collaborative work with individuals from other national or international institutions. The works published are provisional, and their authors are fully responsible for the opinions expressed in them, as well as for possible mistakes. The opinions expressed herein are those of the authors and do not necessarily reflect the views of Banco de la República or its Board of Directors.

AUTHORS AND/OR EDITORS León-Rincón, Carlos Eduardo Martínez-Ventura, Constanza Cepeda-López, Freddy Hernán Publication Date: Thursday, 24 of December 2015
We implement a modified version of DebtRank, a measure of systemic impact inspired in feedback centrality, to recursively measure the contagion effects caused by the default of a selected financial institution. In our case contagion is a liquidity issue, measured as the decrease in financial institutions' short-term liquidity position across the Colombian interbank network. Concurrent with related literature, unless contagion dynamics are preceded by a major –but unlikely- drop in the short-term liquidity position of all participants, we consistently find that individual and systemic contagion effects are negligible. We find that negative effects resulting from contagion are concentrated in a few financial institutions. However, as most of their impact is conditional on the occurrence of unlikely major widespread illiquidity events, and due to the subsidiary contribution of the interbank market to the local money market, their overall systemic importance is still to be confirmed.

Fuente: https://d1b4gd4m8561gs.cloudfront.net/en/publications-research/working-papers-economics/920