



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

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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.