

Payment Delays and Contagion^{*}

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First version: December 29, 2013. This version: November 14, 2014

Abstract

This paper provides a characterization of delays in interbank payments via TARGET2 payment system and conducts a first approximation to the determinants whereby a delay in incoming transactions may cause a delay in other transactions downstream. In contrast to the theoretical literature, our results show that banks do not incur in game-theoretic games but rather set up persistent liquidity strategies. These strategies in turn help identify two types of banks in terms of their initial liquidity allocations and propensity to delay their payments. Results in both cases are robust to alternative environments of high and low market liquidity and distress.

JEL classification: C26, E42, G21.

Keywords: Payment delays, probit models with endogenous regressors, liquidity.

^{*}The views expressed in this paper are those of the authors and do not necessarily reflect those of the Federal Bank of Cleveland, the Banque de France or the Eurosystem and its staff, the IMF. Martin Saldias worked on the paper while affiliated at Banco of Portugal.

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