Payment Delays and Contagion
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Abstract:
This paper provides a characterization of delays in interbank payments via TARGET2 payment system and conducts a rst 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.