

A Network View on Interbank Liquidity ^{*}

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Abstract

The euro area overnight interbank market is best described as a network of lending relationships. We study liquidity reallocation in this interbank network using a novel dataset of all interbank loans settled between European banks and document a significant change in the network structure around the bankruptcy of Lehman Brothers. We show that a bank's position in the interbank network, measured by its centrality, has an economically significant effect on its liquidity access and provision. The effect is stronger for the price of liquidity than for the volume, and stronger for liquidity provision than for access to liquidity.

Keywords: interbank networks, liquidity, network formation

JEL Classification: D85, E5, G1, G21

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