DebtRank: Distress Cascades and Financial Immunization
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Systemic risk, here meant as the risk of default of a large portion of the financial system, depends on the network of financial exposures among institutions. However, there is no widely accepted methodology to determine the systemically important nodes in a network. To fill this gap, we introduce, DebtRank, a novel measure of systemic impact that overcomes the limitations of the current state of the art. DebtRank is inspired by feedback-centrality in complex networks but delivers an estimation of systemic impact in monetary terms of the impact of distress on individuals and groups of institutions. We illustrate various applications of DebtRank to real world financial networks.