33. Leverage of the banking sector

- *In 2011, in 11 out of 30 OECD countries for which data are available, the leverage of the banking sector was above the OECD average of 13.9. Greece had the highest ratio, exceeding three times the OECD average, followed by Italy and Germany recording a ratio around twice the OECD average. Canada had the lowest ratio with 2.3 in 2011.*
- *From 2006 to 2011, a large deleveraging of the banking sector occurred in the Slovak Republic with a decrease of 56 points. Despite this decline, the Slovak Republic, with a ratio of 24.4 in 2011, remained one of the OECD countries with the highest banking leverage. In the other OECD countries, the ratio increased by 6.8 on average over the period making banks more susceptible to shocks.*
- *Between 2011 and 2012, the leverage of the banking sector slowed down in 23 OECD countries out of 28 for which 2012 data are available. The main reason for this deleveraging is the tightening interbank and debt-issuance conditions compounded by deposit outflows.*

The ratio between the financial assets of the banking sector and their equity, also known as the equity multiplier ratio, can be used alongside other measurements of the financial leverage of this sector to ascertain its overall financial stability and to analyse its financial health.

Banks engage in this kind of leverage, with the aim of increasing their return on equity. But a higher equity multiplier indicates a higher financial leverage, which is a potential source of financial fragility as it may increase a financial institution's exposure to risk and cyclical downturns and may mean that the sector is relying more on debt to finance its assets.

However, a high ratio does not necessarily mean that the company is intended to fail; it only indicates that this scenario is more likely to occur for a company that has high financial leverage. Some companies may wisely use financial leverage to fund assets, which, in the long run, can allow the company to get out of its debt.

The ratio is the number of times selected assets held by the banking sector is to their equity. Therefore, if the ratio is 2.5 it means that the assets that the banking sector holds are 2.5 times larger than their equity.

Definition

The banking leverage indicator refers to the banking sector (Central bank – S121 – and other depository corporations – S122), extended to other financial intermediaries, except insurance corporations and pension funds (S123).

Leverage is computed as the ratio of selected financial assets to total equity:

- The selected financial assets correspond to currency and deposits, securities other than shares except financial derivatives and loans, as recorded on the asset side of the financial balance sheets of these financial sub-sectors.
- Total equity relates to shares and other equity, except mutual fund shares, as reported on the liability side of their financial balance sheet. Own funds, which are calculated as total net worth plus shares and other equity, would have been preferable as a denominator to avoid stock market fluctuations. However due to the non-availability of data on non-financial assets for many OECD countries, the total net worth could not be calculated. In this respect, shares and other equity, which form a part of own funds, are selected as a denominator.

Comparability

Data are non-consolidated for all OECD countries, except for Australia and Israel.

The financial sector on which this ratio is calculated can differ according to countries. In particular, the other financial intermediary sub-sector (S123) can include financial auxiliaries (S124) in some countries, such as Australia, Canada, Iceland, Switzerland, the Slovak Republic and the United Kingdom. Also in Greece, S124 data are not available separately, but here the portfolio of financial auxiliaries is rather insignificant.

Source

OECD (2013), *National Accounts of OECD Countries, Financial Balance Sheets*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/22214461* (except for Australia and Israel).

Online database

OECD (2013), "Financial Balance Sheets", *OECD National Accounts Statistics* (database), *http://dx.doi.org/10.1787/na-fbs-data-en*.

Information on data for Israel: *http://dx.doi.org/10.1787/888932315602*.

Table 33.1. **Leverage of the banking sector**

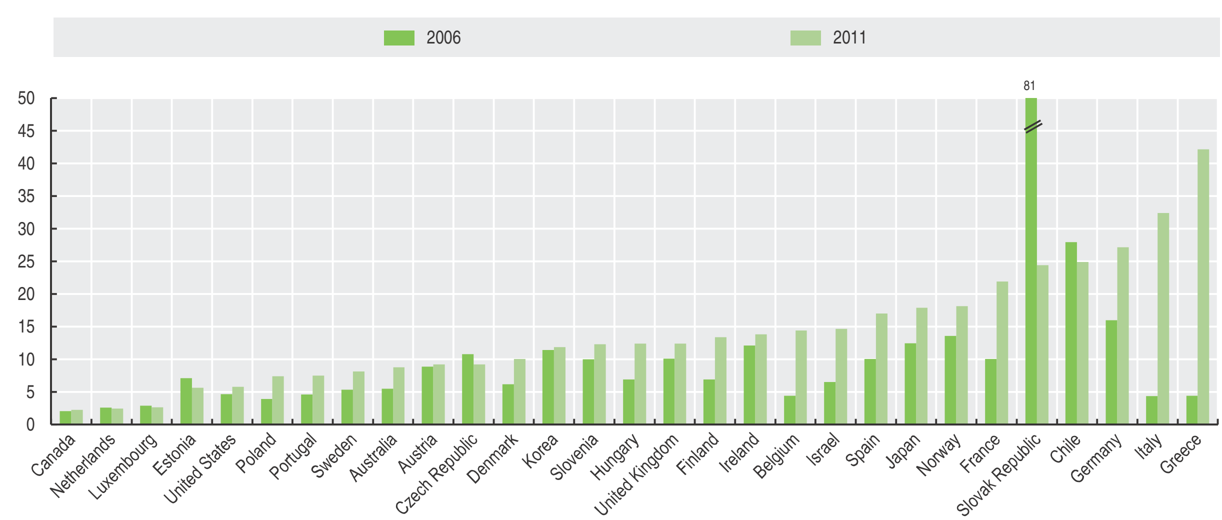
Ratio of selected assets to equity, number of times

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Australia	6.4	6.0	5.6	5.6	5.9	6.2	5.9	5.5	5.7	10.8	7.1	7.8	8.8	7.5
Austria	13.8	14.0	18.8	19.3	16.3	13.7	10.8	8.9	7.6	10.4	8.1	7.6	9.2	8.2
Belgium	3.7	3.6	4.6	6.4	6.4	5.2	5.2	4.4	4.9	13.8	9.9	10.7	14.4	9.5
Canada	2.3	1.7	2.3	2.6	2.3	2.2	2.2	2.1	2.0	2.8	2.4	2.1	2.3	2.2
Chile	..	..	..	..	..	..	32.2	28.0	22.4	15.9	23.6	30.1	24.9	31.4
Czech Republic	22.2	27.8	22.7	34.8	11.5	10.3	10.7	10.8	10.3	11.6	10.0	8.7	9.2	8.2
Denmark	..	..	..	..	7.1	8.0	6.3	6.2	8.5	16.0	11.3	9.5	10.1	9.3
Estonia	4.6	2.9	3.2	2.9	3.9	3.0	3.8	7.1	6.6	6.2	6.7	6.0	5.7	5.3
Finland	7.0	8.0	6.9	7.8	7.3	7.8	6.9	6.9	8.2	10.1	9.2	10.1	13.4	12.1
France	11.8	11.4	11.7	12.8	12.2	11.2	10.9	10.0	13.9	23.5	16.4	16.4	21.9	18.5
Germany	15.2	16.1	17.7	24.2	21.2	21.3	18.7	16.0	15.9	29.2	23.8	25.1	27.2	24.6
Greece	3.3	5.0	6.6	9.5	7.6	6.3	5.2	4.4	4.3	17.3	11.9	25.7	42.2	13.4
Hungary	12.3	12.0	11.6	10.0	8.7	7.3	7.4	7.0	7.9	13.5	11.2	12.0	12.4	12.3
Iceland	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Ireland	..	..	6.8	7.4	8.8	9.7	11.8	12.1	14.9	20.3	17.0	17.3	13.8	11.6
Israel	..	..	11.7	18.1	10.2	8.2	7.0	6.5	6.8	13.9	10.3	9.4	14.7	..
Italy	4.9	4.2	6.4	7.9	6.6	6.3	5.2	4.4	6.6	20.0	15.1	21.4	32.4	29.7
Japan	23.5	30.3	28.4	35.2	18.3	17.4	10.5	12.5	16.1	21.2	17.1	17.6	17.9	..
Korea	..	..	..	17.8	16.3	14.5	10.4	11.4	11.4	16.8	10.6	10.4	11.9	10.6
Luxembourg	..	..	..	..	..	..	..	2.9	2.9	2.7	2.3	1.9	2.7	2.9
Mexico	42.7	50.9	733.6	65.5	67.5	16.9	19.6	15.9	14.9	10.6	11.9	..	..	..
Netherlands	2.1	2.1	2.3	2.8	2.9	3.0	2.9	2.6	2.7	2.9	2.7	2.6	2.5	2.4
New Zealand	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Norway	12.6	14.5	16.0	15.3	15.2	12.6	13.4	13.6	14.8	27.7	18.2	15.2	18.2	16.4
Poland	6.6	7.9	6.9	7.9	8.0	5.3	4.9	3.9	4.0	7.8	6.1	5.7	7.4	6.4
Portugal	6.1	6.2	6.1	6.8	5.7	5.3	5.1	4.6	4.7	5.6	5.5	6.5	7.5	7.1
Slovak Republic	58.8	52.7	56.4	41.7	36.6	35.7	153.5	80.6	33.2	28.2	29.4	26.3	24.4	24.8
Slovenia	..	..	8.2	9.5	9.0	9.4	10.4	10.0	9.2	10.6	11.0	10.9	12.3	13.3
Spain	6.6	6.3	7.2	10.0	9.5	10.5	10.7	10.1	12.0	20.6	15.2	18.0	17.0	17.0
Sweden	6.1	5.7	5.1	6.7	5.8	5.7	5.6	5.4	6.4	12.6	8.2	7.0	8.1	7.2
Switzerland	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Turkey	..	..	..	..	..	..	..	..	..	..	..	4.1	6.4	5.3
United Kingdom	7.2	7.0	7.5	9.2	9.1	9.5	10.3	10.1	12.2	15.9	11.1	10.9	12.4	12.0
United States	5.2	5.1	5.7	6.4	5.5	4.9	4.9	4.7	5.5	7.9	6.4	5.5	5.8	5.2
Euro area	..	..	..	..	..	..	..	..	..	..	..	..	..	..
OECD-Total	..	..	..	..	..	..	..	..	..	..	..	..	..	..
China	..	..	..	..	..	..	..	..	..	..	..	..	..	..
India	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Indonesia	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Russian Federation	..	..	..	..	..	..	..	..	..	..	..	..	..	..
South Africa	..	..	..	..	..	..	..	..	..	..	..	..	..	..

StatLink http://dx.doi.org/10.1787/888933002718

Figure 33.1. **Leverage of the banking sector**

Ratio of selected assets to equity, number of times, 2006 and 2011



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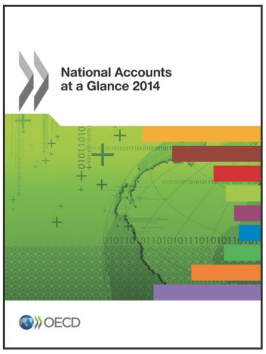

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