32. Debt to equity ratio in financial corporations

- *After a sharp peak in the debt-to-equity ratio of financial corporations in 2008 in most OECD countries, a significant fall of -1.6 point on average was recorded in 2009, followed by another decline in 2010 although to a much lesser extent, indicating a decrease in the risk exposure for the creditors of the financial corporations.*
- *Between 2006 and 2011, debt-to-equity ratios increased in 22 out of 30 OECD countries. The strongest increases were recorded in Greece (28.0 points), Italy (10.2 points) and Belgium (5.5 points). Since 2006, Luxembourg's ratio has remained below 1, the lowest ratio of OECD countries.*

Firms can finance their operations through debt or equity. The debt to equity ratio is a measure of the financial leverage, or the degree to which financial companies finance their activities out of their equity. The more debt financing a firm uses, the higher its financial leverage which in turn means higher interest payments and the greater the risk for corporations creditors and investors; therefore, high corporate leverage increases the vulnerability of financial corporations to shocks and may impair their repayment capacity.

A higher total debt-to-equity ratio indicates that the sector has been increasing the relative share of debt in external financing, whereas a lower debt-to-equity ratio indicates that the sector is financing a decreasing proportion of its activities through debt as compared to financing through their equity (retained earnings and net new share issuance).

Fluctuations in the market value of equity can also cause changes in the ratio. The ratio is the number of times debt is to equity. Therefore, if a financial corporation's ratio is 2.5 it means that the debt outstanding is 2.5 times larger than their equity.

Higher debt can result in volatile earnings due to additional interest expense as well as increased vulnerability to business downturns. However, contrary to what many believe, debt is not necessarily a bad thing: it can be positive, provided it is used for productive purposes such as purchasing assets and improving processes to increase net profits. Moreover, the debt-to-equity ratio is more meaningful when compared over a period of time.

Non-consolidated debt data provide important information about the total indebtedness of the financial corporations sector.

Definition

The debt to equity ratio indicator is calculated by dividing the debt of financial corporations by the total amount of shares and other equity liabilities of the same sector.

Debt is a commonly used concept, defined as a specific subset of liabilities. All debt instruments are liabilities, but some liabilities such as shares, equity and financial derivatives are not debt. Debt is predominantly obtained as the sum of the following liability categories: currency and deposits, securities other than shares (except financial derivatives), loans, insurance technical reserves and other accounts payable.

On the denominator side, shares and other equity correspond to a part of the own resources of financial corporations which are, by convention, reported on the liability side of the companies. 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.

The financial corporation sector (S12) includes all private and public entities engaged in financial activities, such as monetary institutions (including the central bank), financial intermediaries, insurance companies and pension funds.

Comparability

Data are non-consolidated for all OECD countries, except for Australia and Israel. According to SNA standards, a consolidated set of balance sheets for a sector is, first, an aggregation of all stocks, followed by the elimination of all stocks that represent relationships among units belonging to the same sector.

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 32.1. **Financial corporations debt**

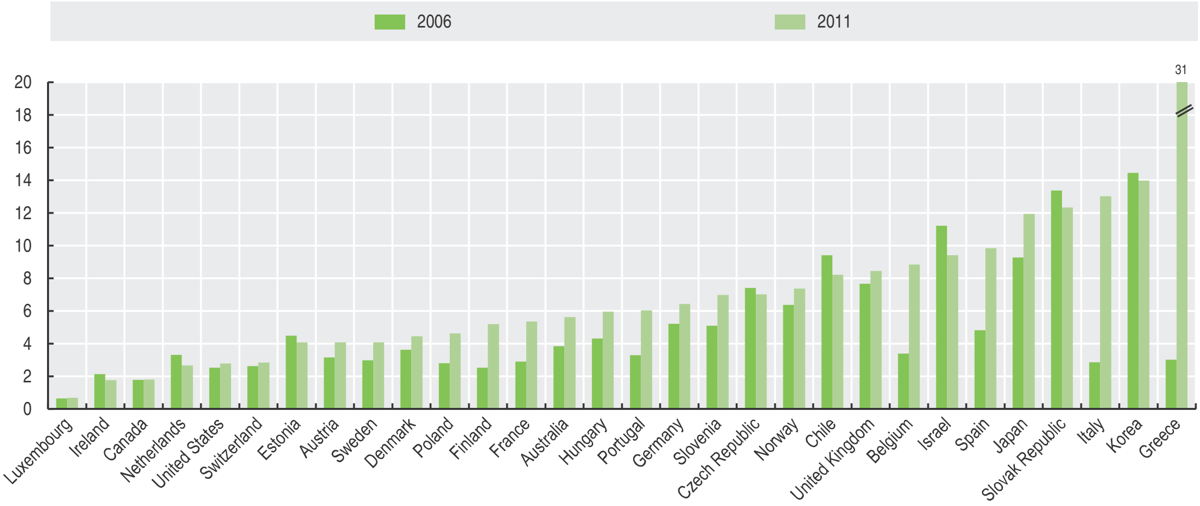
Ratio of debt to equity, number of times

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Australia	5.0	4.4	4.1	4.5	4.2	4.0	3.9	3.9	4.1	6.1	5.0	5.1	5.6	5.4
Austria	4.4	4.3	4.6	4.5	4.2	4.0	3.4	3.2	3.2	4.7	3.9	3.5	4.1	3.7
Belgium	2.9	2.8	3.4	4.4	4.4	3.8	3.8	3.4	3.9	8.3	6.5	6.7	8.9	6.7
Canada	2.1	1.6	2.1	2.2	2.0	1.9	1.9	1.8	1.7	2.3	1.9	1.7	1.8	1.7
Chile	..	..	..	..	..	..	10.9	9.4	8.1	7.6	7.2	7.9	8.2	8.9
Czech Republic	10.9	11.3	13.4	15.2	7.5	7.0	7.3	7.4	7.2	8.3	7.3	6.5	7.0	6.2
Denmark	..	..	..	..	4.8	4.5	3.8	3.6	4.3	7.0	5.8	4.5	4.5	4.1
Estonia	4.2	2.6	2.6	2.4	3.0	2.4	2.9	4.5	4.3	4.8	5.2	4.4	4.1	4.0
Finland	4.2	4.3	4.4	4.6	3.7	3.5	2.9	2.5	2.7	4.1	3.6	3.8	5.2	4.9
France	3.3	3.0	3.2	3.5	3.2	3.2	3.0	2.9	3.6	4.8	4.2	4.4	5.4	4.9
Germany	4.5	4.8	5.4	7.0	6.1	6.2	5.5	5.2	5.3	7.6	6.5	6.1	6.4	5.7
Greece	1.5	2.2	3.0	4.1	3.4	3.2	3.1	3.0	3.2	13.0	9.8	19.3	31.0	11.6
Hungary	8.1	7.7	7.1	6.0	5.8	5.2	4.7	4.3	4.5	7.1	6.1	5.7	6.0	5.6
Iceland	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Ireland	..	..	1.6	1.6	1.8	2.0	2.2	2.2	2.2	3.2	2.6	2.1	1.8	1.4
Israel	..	..	19.2	27.8	16.1	13.1	11.3	11.2	11.6	21.3	8.7	7.1	9.4	..
Italy	1.8	1.8	2.3	3.1	2.9	3.0	2.8	2.9	3.9	8.2	7.6	9.6	13.0	13.0
Japan	17.5	19.9	21.3	24.9	15.0	13.9	8.8	9.3	11.1	14.6	11.9	11.6	11.9	..
Korea	..	..	..	19.9	19.1	17.9	13.0	14.5	13.8	19.5	13.4	12.2	14.0	12.9
Luxembourg	..	..	..	..	..	..	..	0.7	0.7	0.7	0.5	0.4	0.7	0.7
Mexico	8.5	8.5	7.6	6.6	5.7	4.3	4.1	3.5	3.2	3.2	3.0	..	..	..
Netherlands	2.7	2.6	2.9	3.5	3.5	3.7	3.7	3.3	3.4	3.6	2.9	2.8	2.7	2.6
New Zealand	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Norway	7.9	8.2	9.2	10.0	9.3	7.9	7.2	6.4	6.4	11.4	8.0	6.7	7.4	6.8
Poland	6.0	7.0	6.1	5.0	5.1	3.9	3.4	2.8	2.7	5.0	4.4	3.9	4.6	4.0
Portugal	3.7	4.1	4.2	4.6	3.9	3.6	3.5	3.3	3.6	4.5	4.4	5.3	6.1	5.5
Slovak Republic	21.3	21.0	22.6	20.1	15.7	13.6	16.4	13.4	11.1	13.0	13.1	11.9	12.3	11.8
Slovenia	..	..	5.5	5.7	5.4	5.2	5.8	5.1	4.6	6.8	6.6	6.3	7.0	6.9
Spain	2.9	3.2	3.6	4.5	4.3	4.3	4.6	4.8	5.9	9.4	8.3	9.6	9.9	10.2
Sweden	3.1	3.0	3.3	4.2	3.4	3.4	3.2	3.0	3.4	5.7	4.1	3.6	4.1	3.7
Switzerland	3.3	2.9	3.2	3.9	3.5	3.2	3.1	2.6	2.8	3.0	2.6	2.6	2.8	..
Turkey	..	..	..	..	..	..	..	..	..	..	3.7	3.4	5.3	4.4
United Kingdom	6.0	6.0	6.6	8.1	7.8	7.9	8.0	7.7	8.6	11.3	8.3	7.7	8.5	8.0
United States	2.6	2.6	2.7	3.1	2.9	2.8	2.7	2.5	2.6	3.4	2.8	2.7	2.8	2.5
Euro area	..	..	..	..	..	..	..	..	..	..	..	..	..	..
OECD-Total	..	..	..	..	..	..	..	..	..	..	..	..	..	..
China	..	..	..	..	..	..	..	..	..	..	..	..	..	..
India	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Indonesia	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Russian Federation	..	..	..	..	..	..	..	..	..	..	..	..	..	..
South Africa	..	..	..	..	..	..	..	..	..	..	..	..	..	..

StatLink http://dx.doi.org/10.1787/888933002699

Figure 32.1. **Financial corporations debt**

Ratio of debt to equity, number of times, 2006 and 2011



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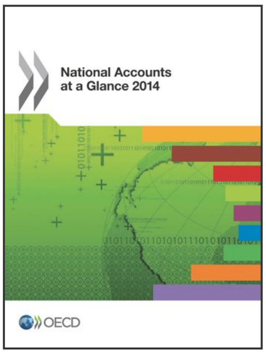

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