

## DEBT AND SECURITISATION

The decline in asset prices had a huge impact on households and firms because of the accumulation of debt, especially by financial institutions. The growth of asset-backed securities contributed to spread the crisis through financial markets.

### Definition

Indebtedness of households and enterprises is measured by the ratio of their liabilities to their income. Data on liabilities are derived from the annual Financial Accounts of OECD countries. Liabilities are the sum of currency and deposits, securities, loans, shares and other equity, insurance technical reserves and other accounts payable.

For the households sector, liabilities are essentially made up of loans, and are expressed as a ratio of household gross disposable income; the data include the non-profit institutions serving households. For enterprises (both financial and non-financial), total liabilities are expressed as a ratio of gross operating surplus, which is a National Accounting measure of the surplus accruing to firms from production after deducting wages and salaries but before taking account of interest, rent or similar charges paid or received. The graph on leverage refers to the banking sector (Central banks and other depository corporations) including

other financial intermediaries. Leverage is computed as the ratio of selected financial assets to total equity. Financial assets include currency and deposits; securities other than shares except financial derivatives; and loans. Total equity related to liabilities in shares and other equity except mutual funds shares.

Asset-backed securities (ABS) are bonds, created through securitisation, whose coupon or principal payments are dependent on a pool of assets, either purchased in the secondary market or from the balance sheet of an original collateral owner, such as mortgages, credit card loans and motor vehicle loans. Residential mortgage-backed securities (RMBS) are a type of ABS, where the collaterals are long-term mortgages to households.

### Comparability

The data on liabilities and financial assets are based on non-consolidated accounts reflecting intra-sectoral assets and liabilities. Cross-country comparability in financial accounts is good, but there are issues in terms of coverage of specific instruments and financial sectors.

### Overview

By 2008, household liabilities exceeded 120% of disposable income in the United Kingdom, Canada, the United States and Japan, while they were significantly lower in continental Europe. Over the past decade, this ratio increased significantly in most countries.

Indebtedness is much higher for firms, and increased in all major OECD countries except Germany and Japan. In the United Kingdom and the United States, much of this rise in indebtedness reflected trends in the financial sector, whose liabilities increased since 1995 at a rate almost double that recorded by the non-financial sector.

In the financial sector, the increase in liabilities in the build-up to the crisis occurred alongside a change in their composition. At the height of the crisis, the leverage of the banking sector, i.e. the ratio between banks' financial assets and their own resources, had increased in most major OECD countries, partly due to the fact that banks repatriated their off-balance sheet exposures and deducted losses from shareholders value. In the aftermath of the crisis, leverage ratios are expected to come down again as deleveraging takes place throughout the economy.

Contagion between financial markets resulted from the financial institutions' strategy of creating large scale securities based on loans and holding different rights that were sold to other investors. The stock of ABS securities issued in the United States increased by five-times in the ten years to mid-2007, before falling by around 10% in the following months. The share of mortgage debt securitised out of total ABS issues increased from 40% in 1998 to around two-thirds in mid-2007.

### Sources

- OECD National Accounts Statistics.

### Further information

#### Statistical publications

- OECD (2009), *National Accounts at a Glance 2009*, OECD, Paris.
- OECD (2010), *National Accounts of OECD Countries*, OECD, Paris.
- OECD (2009), *National Accounts of OECD Countries 2008, Volume IIIb, Financial Balance Sheets: Stocks*, OECD, Paris.

#### Online databases

- Thomson Reuters Datastream.

#### Methodological publications

- OECD (2000), *OECD Glossaries, System of National Accounts, 1993 – Glossary*, OECD, Paris.
- IMF (2009), *Handbook on Securities Statistics, second draft, Part 1*, IMF, Washington, DC.
- OECD (2008), *System of National Accounts 2008*, OECD, Paris.

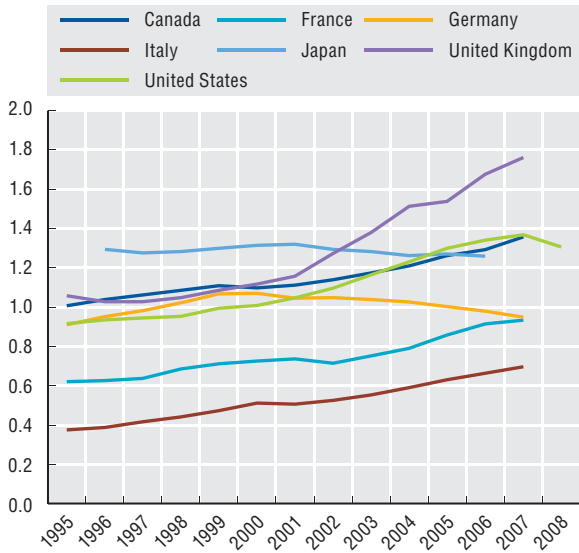
#### Web sites

- OECD (2008), *Financial Market Trends*, OECD, Paris, [www.sourceOECD.org/periodical/fmt](http://www.sourceOECD.org/periodical/fmt).
- OECD National Accounts, [www.oecd.org/std/national-accounts](http://www.oecd.org/std/national-accounts).
- OECD (2009), *OECD Financial Accounts*, OECD, Paris, [www.sourceoecd.org/9789264082403](http://www.sourceoecd.org/9789264082403).

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**Indebtness of households**

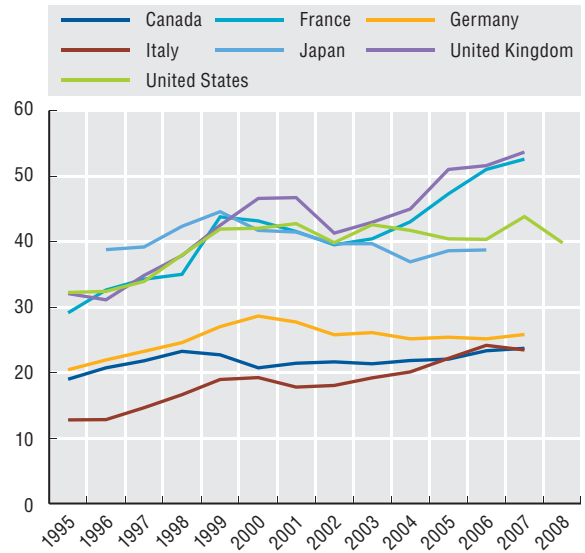
As a ratio of gross disposable income



StatLink <http://dx.doi.org/10.1787/823151633767>

**Indebtness of enterprises**

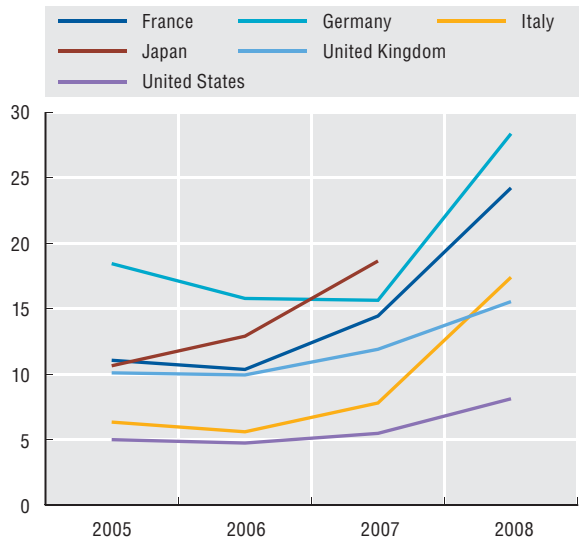
As a ratio of gross operating surplus



StatLink <http://dx.doi.org/10.1787/823162705683>

**Leverage of the banking sector**

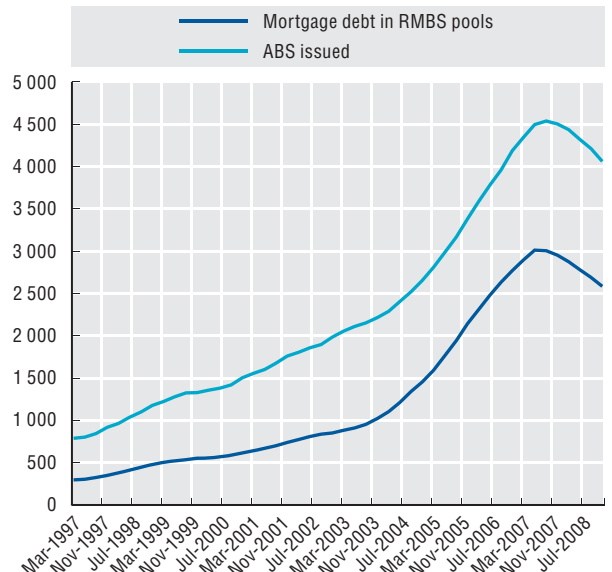
As a ratio of total equity



StatLink <http://dx.doi.org/10.1787/823253827735>

**Asset-backed securities issued in the United States**

Billion US dollars



StatLink <http://dx.doi.org/10.1787/823272536016>



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