



LET'S TALK ABOUT...

FINANCIAL LEXICON EDITED BY THE SWISS ASSOCIATION OF ASSET MANAGERS

Deleveraging

This term is to be found more and more often in the media and the public debates. It obviously denotes the opposite of *leveraging*, that is the practice of borrowing so to consume and invest larger amounts than the actually held ones, with the hope that expected returns may allow repaying interests and principal at due dates. Sometimes, better still, pretty often, that has not been the case. Thus deleveraging means a progressive decreasing of debt, through its repayment and the softening of the interest burden, so to restore the financial structure, taking it back to more balanced, less dangerous and speculative dimensions.

During the past years borrowing was excessive and easy going for many entities, particularly in the US and some European countries, for households, bank, other financial institutions and governments, having the latter had to sustain the rescue of several financial sectors. Now all of them must – or at least should – take the opposite stances. Households need to cut down their ways of life and income-expenses ratios, as well as firms; banks need recapitalizing and better assessments in their lending and market operations.

For governments facing such a gloomy economic cycle, the path of deleveraging is compulsory as well as problematic: it requires to decrease debt and public expenses, increase taxation, support growth and export as well as domestic demand, sell public assets and privatize, rebalancing pension systems through increasing retirement age and cutting entitlements,...

All of these actions may prove difficult in the current scenario, because their fast and strong implementation is finally the result of political stances. Moreover they may take to negative or at least contradictory consequences, were they to fail in increasing employment or restrain growth instead of fuelling it, and even ignite social unrests, of which some signs may be currently seen in Euroland. -
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The views expressed are not necessarily those of the Swiss Association of Asset Managers