# Allocating FISIM

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# Allocating FISIM

- What is FISIM?

- Banks charge a high rate of interest on lending to clients

- Banks offer a low rate of interest to savers

- The difference is net interest receipts of banks

# Allocating FISIM

- As banks make a lot of money out of borrowing and lending

- They don't charge us for the borrowing and lending services

- So national accounts measures of output are (very) low

- This gives a low (or negative) estimate of value added

# Allocating FISIM

- So national accounts have decided to impute a service charge

- How do they do this?

- We assume that there is a reference rate at which a borrower and lender can both be happy at the "price" of lending and borrowing

- Then we can show the interest flows at this rate still as interest

# Allocating FISIM

- But the extra money both "pay" through the actual rates applied, Is treated as the charge for the service

- For example

- If I want to borrow 100 dollars for a year, and pay back 105 dollars to the lender at the end of the year, both I and the lender could agree that this was an acceptable rate – considering the current norm for terms of reward for risk.

# Allocating FISIM

- But meeting people who want to lend you the exact same amount of money as you are looking for, over the same period, and will trust you, is a rare event

- That's why we need banks.
- They check out clients on both sides of the deal
- They bundle borrowing and lending to even the books
- They look after both sides in legal aspects
- They provide facilities for over the counter banking – short-term withdrawals, deposit facilities, etc, etc

# Allocating FISIM

- So instead of charging both sides a service fee, instead of the 5 dollars both sides could agree was reasonable, they may offer only 3 dollars interest back to the saver, and charge the borrower 8 dollars.

- So now the lender (the saver, the depositor) effectively pays 2 dollars as a bank service, and receives only 3 dollars in interest

- Similarly the borrower pays 3 dollars more than expected, the imputed service charge, and has to pay what is still called an interest charge of 8 dollars

# Allocating FISIM

- The 3 dollars "interest" received by the lender from the Bank, and the 8 dollars "interest" paid by the borrower, is called Bank interest

- The net interest receipts of the Bank ( 8 less 5 ) is the sum of the imputed service charges – FISIM

- Net interest receipts = 8 – 3 = 5

- = (5 + 3) – (5 – 2)  = 3 + 2 = sum of imputed service charge = 5

# Allocating FISIM

- How should we allocate the FISIM charge?

- The banks should show it as output

- The borrowing business should show it as an intermediate cost

- The lending household should show it a part of final consumption

# Allocating FISIM

- So banking output increases by 5, and so value added increases by 5

- Business shows the charge of 3 as an intermediate consumption, so their value added is reduced by 3

- Net effect on value added is increased by 2

- This matched by an increase in HH final consumption of 2

# Allocating FISIM

- Under 1968 SNA, all of the FISIM charge was taken to fall on industry as intermediate consumption

- So the 5 increase in the Banks value added was matched by a decrease in the value added of the other industries

- So no change was shown to HH final consumption (it should have gone up by 2)

- So the 1968 treatment results in an under-estimate of GDP by 2

# Allocating FISIM

- SNA 1993 / SNA 2008

- Determine the appropriate reference rate

- Allocate FISIM by industry and final demand sector

- Result is Value added and final demand rise (by 2)

# Allocating FISIM

- It is difficult (impossible) to agree on a reference rate

- If we assume that in the economy, lending = borrowing

- So in banking, stock levels of deposits by customers (financial liabilities of the banks) = stock levels of lending to customers (financial assets of the banks)

- And assume that the reference rate is the average of all the lending and borrowing rates

# Allocating FISIM

- Then we can allocate FISIM to end-user according to the stock of deposits and liabilities held

- In our case, the lending and borrowing levels are equal, and so each gets a separate equal share of the total service charge – 2.5 each

- In our simple example, the household saver (who makes the deposits in the bank) pays 2.5 of the 5

- And the industry borrower  pays 2.5

# Allocating FISIM

- What happens to the flows of interest under each case?

- With no imputation, the saver receives 3% - 3 dollars

- The borrower pays 8% - 8 dollars

- The banks keep the net receipts of 5 dollars

- These flows are shown in the allocation of primary income account

# Allocating FISIM

- When a service charge is imputed, then the interest flows are reduced by the amount of charge allocated

- Under the 1968 treatment, the banks are shown as receiving extra payments.

- But these are cancelled out by dummy adjustment, so there is no effect on interest payments at the whole economy level.

# Allocating FISIM

- Under the 1993 / 2008 SNA

- Bank output rises by 5, value added by 5, and so interest transfers in the allocation of primary income are reduced by 5

- Industry output is reduced by 3, value added reduced by 3, and the interest transfers to the bank are increased by 3

- Household spending is increased by 2, and this reflected in the increase in interest payments from the bank