



Calculation of FISIM

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Outline of Presentation

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Background

- Banks provide an intermediation service as their core activity (i.e., they channel funds between lenders and borrowers)
- They use the net receipts of interest to defray most of their expenses and provide an operating surplus
- “This scheme of interest rates avoids the need to charge their customers individually for services provided” to depositors and borrowers (Paragraph 6.124, 1993 SNA)
 - The services provided to depositors are managing the depositor’s accounts, fund transfers etc.
 - The services provided to borrowers are financial advice, managing the repayment of loans etc.

Background

- To value these services for which the banks do not charge explicitly, the system uses an indirect measure, called financial intermediation services indirectly measured (FISIM).
- Banks also provide various kind of auxiliary financial services as secondary activities. The output of such services is valued on the basis of the fees or commissions charged.

Background

- The total output of banks is therefore the sum of (1) explicit charges and (2) FISIM.
- At present the imputed bank service charge method (i.e. interest receivable less interest payable) is used as a proxy for estimating FISIM for banks and credit unions for the ECCU member states

Key Changes Associated with Measuring FISIM

Method for calculating FISIM is refined

- ▶ The 2008 SNA recommends that
 - ▶ FISIM applies only to loans and deposits and
 - ▶ only when those loans and deposits are provided by, or deposited with financial institutions.
- ▶ The 2008 SNA calculates the output of FISIM on loans (VL) and deposits (Vd) only, using a reference rate (rr).
- ▶ The 1993 SNA calculated FISIM as the difference between property income receivable and interest payable.

Key Changes Associated with Measuring FISIM

New way of measurement of FISIM

- ▶ Measurement relies only on interest receivable on loans and interest payable on deposits, ignoring all other investment incomes.
- ▶ Assuming that these loans and deposits attract interest rates of r_L and r_d respectively, the output of FISIM should be calculated according to the formula
$$(r_L - rr) VL + (rr - r_d) Vd.$$

Data Sources

- The ECCB regulates the commercial banks in the Currency Union
- Detailed commercial banking statistical data are available on monthly, quarterly and annual basis
- The main data utilized for compilation of FISIM:
 - Data on stocks of deposits
 - **Sector data on stocks of loans and advances**
 - Interest rates on deposits and loans and advances
 - Balance sheets of commercial banks

Data Sources

- Data from credit unions and other deposit taking institutions are not available in ECCB database as the bank does not regulate these institutions
- There is need to amend the survey form for credit unions/non-bank financial institutions to collect data on stock of loans and deposits.

Impact of FISIM Allocation

- The 2008 SNA recommends that the consumption of FISIM should be allocated between users (lenders as well borrowers) treating the allocated amounts either as intermediate consumption by enterprises or as final demand consumption or exports.
- In the ECCU member states, FISIM is currently partly allocated, with the total business IC component deducted when compiling GDP-P

Impact of FISIM Allocation

- FISIM is also allocated to Government and Household final consumption.
- FISIM attributable to non-residents are allocated to exports of services
 - While the data are available for all countries, this is only realised with the GDP-E for Grenada and St Vincent and the Grenadines through the E-GDP project
- The values of FISIM allocated to final consumption increases the level of GDP because they are not deducted from output as intermediate consumption

FISIM in Constant Prices

- The respective base year estimate of FISIM on deposits and FISIM on loans is extrapolated using the deflated value of deposits and loans and advances to derive the respective constant price FISIM estimate.
- The ALL Items CPI is used to deflate the deposits and loans and advances
 - Appropriate or not?????

Areas for Improvement

- FISIM attributable to household mortgage interest payments are to be part of the IC for dwellings and not household final consumption.
- In the national accounts people who own the dwellings that they live in are treated as producers of housing services that they then consume. When owner-occupiers take out loans/mortgages on dwellings they are paying an implied service charge. Because the transaction is regarded as production, the associated FISIM is regarded as intermediate consumption by the owner occupier

Areas for Improvement

- A breakdown of household loans on mortgages and on other goods and services would be required
- The BOP statistics would need to be adjusted to include FISIM on exports and imports of services
- The FISIM on loans for corporations should be allocated to industry IC using the data on the value of loans by industry (data are available)

Areas for Improvement

- However, FISIM on deposits should be allocated to industry using a composite indicator of the sum of output and IC by industry.
- The average of the opening and closing stocks of loans and advances and deposits should be used for the calendar year instead of the value at 31 Dec presently utilised.

Conceptual Issues in Calculating FISIM

- The choice of the risk-free (reference) rate
 - *We have been advised not to use the interbank rate for the reference rate but to use the midpoint between the lending and borrowing rate as most of the foreign banks would borrow from or lend to their overseas affiliates.*
- Should securities be included in the measurement of FISIM?
- What is the impact of non-performing bank loans on the calculation of FISIM?

Conclusion

- Detailed worksheets exists for the ECCU member states for the compilation of FISIM
- Further improvements would be necessary to derive FISIM based on the 2008 SNA
- The implementation of the 2008 SNA recommendations for calculating FISIM means that:
 - these outputs are more comparable with the results of other countries
 - improves the relevance of our statistics

Thank You

