

FISIM in the ICP

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FISIM in the 1968 & 1993 SNA (1)

- In the 1968 SNA FISIM was called *imputed bank service charges*
- FISIM is the difference between the interest received by banks and the interest paid by banks to depositors.
- It is a measure of the “free” services provided by banks to creditors and debtors
- In both the 1968 and 1993 SNA the gross output and value added of banks includes FISIM

FISIM in the 1968 & 1993 SNA (2)

- The 1968 SNA treats the whole of FISIM as intermediate consumption of enterprises
- The 1993 SNA recommends that FISIM should be allocated to the sectors that consume FISIM ***if it is feasible to do so.***
- If FISIM is allocated to the sectors that consume it, GDP is increased by the amount that is not consumed by enterprises

How to allocate FISIM

- The 1993 SNA suggests two ways of allocating FISIM to the sectors that consume it.
- The preferred method is to use a “reference rate” of interest
- The second method is to use “relevant indicators”
- If neither of these can be used, the 1968 treatment should be retained.

Reference rate

- The reference rate of interest is a theoretical concept
- The annual reference rate is the interest rate that people must be paid to persuade them to wait one year before spending their income
- The interest rates that are observed on the market are higher than the reference rate because they include a risk factor
- However interest rates such as LIBOR are nearly risk-free and so are close to the reference rate.

Allocating FISIM using the reference rate

- FISIM consumed by households is the sum of:
 - the difference between the reference rate and the interest received by households on their bank deposits
 - the difference between the interest paid on bank loans by households and the reference rate
- This method has proved impractical. No country has implemented it to date

Allocating FISIM using relevant indicators

- Relevant indicators are the total bank loans to a given sector and the total deposits held by banks from that sector
- Total loans are added to total deposits and each sector's share in total bank loans and bank deposits are used to allocate FISIM

Country practices

- Most countries in the world still follow the 1968 treatment and show all FISIM as being consumed by the enterprise sector
- A few countries allocate FISIM using methods that are not recommended by the 1993 SNA
- For ICP 2004 almost all countries will report a zero expenditure weight for FISIM in household consumption expenditure.
- **This is acceptable.**