

Deconstructing FISIM: Should Financial Risk Affect GDP?

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More than fifteen years ago, the 1993 version of the System of National Accounts (SNA), the international statistical standard underpinning closely watched indicators such as gross domestic product (GDP) introduced the concept of financial intermediation services indirectly measured (FISIM) as the preferred approach to measuring the value of financial services production. Put simply, FISIM for an asset class is the the contract interest earned on the asset class less the income foregone at a reference rate of interest for the asset class. FISIM for a liability class is the income that would be earned on the funds acquired in the liability class less the contract interest cost of those funds. FISIM is broadly consistent with the modern, user cost of money theory of financial services production and consumption promulgated by Diewert (1973) and Barnett (1978). The newest, 2008 version of the SNA not only recommends but requires the use of FISIM for loans and deposits. Methodological choices affecting FISIM thus affect GDP. An important issue in implementing FISIM on which full consensus has not been reached is how the reference rate should be determined. The 1993 SNA suggested the reference rate be a very short duration, essentially riskless rate, like the interbank rate. The 2008 SNA (paragraph 6.166) continues to say the interbank rate “may be suitable”, but also says “The reference rate should contain no service element and reflect the risk and maturity structure of deposits and loans.” The 2008 SNA thus identifies two main subsidiary considerations in determining the reference rate, the degree to which it should reflect the level of risk of the asset classes to which it is applied, and the degree to which it should reflect the maturity of the asset as well as liability classes to which it is applied. Since the reference rate is subtracted from the loan rate to calculate credit services FISIM, if the reference rate fully reflects the risk and maturity premia of an asset class, this eliminates risk and maturity remuneration from FISIM. Basu, Inklaar, and Wang (2008) take this view, for example. On the other hand, banks engage not only in financial intermediation between depositors and borrowers, but also in activities to insure against loan default risk as well as the risk to meeting obligations from mismatched maturity profiles between assets and liabilities. We examine FISIM and risk in this context, which we think raises some difficult questions for the advocates of removing risk remuneration from FISIM.