

Measuring FISIM in the euro area under various choices of reference rate(s)

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Outline

- The European and International **FISIM** Task Forces
- Term-spread adjustment: **the options under testing**
- Estimated **FISIM output** for the euro area
- Conclusions

The European and International FISIM Task Forces

The work of the TFs concentrated on four aspects:

- foreign denominated balances
- **treatment of term premium**
- treatment of default risk premium
- volume measures of FISIM

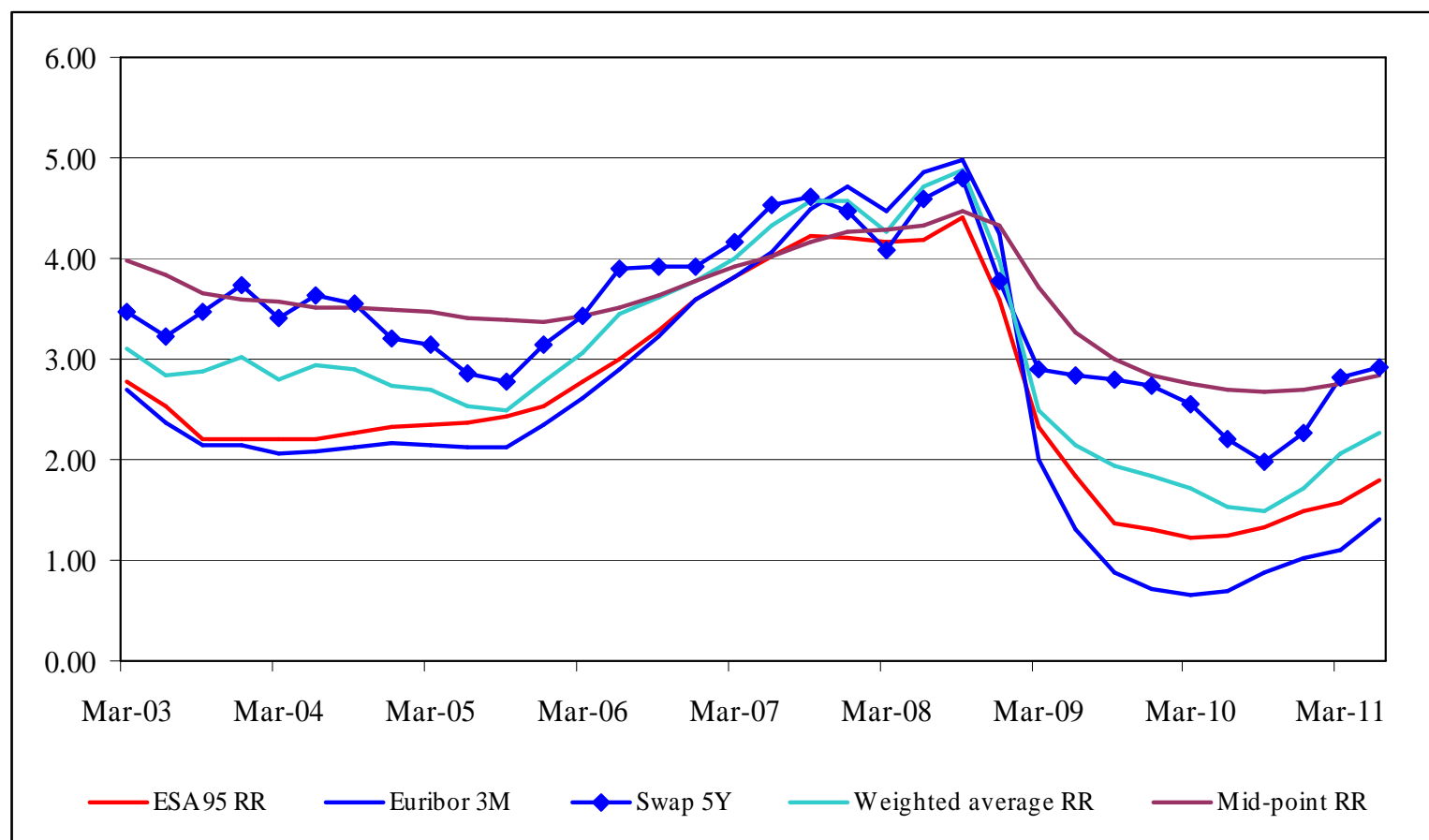
Term-spread adjustment: the options under testing

The TFs overall suggested to test five methods:

- average lending rate of FISIM producers (**ESA 95**)
- two reference rates, one for short-term and one for long-term deposits and loans
- the weighted average reference rate, the amounts of short and long-term deposits and loans being the weights
- the matched reference rate approach
- the mid-point reference rate approach

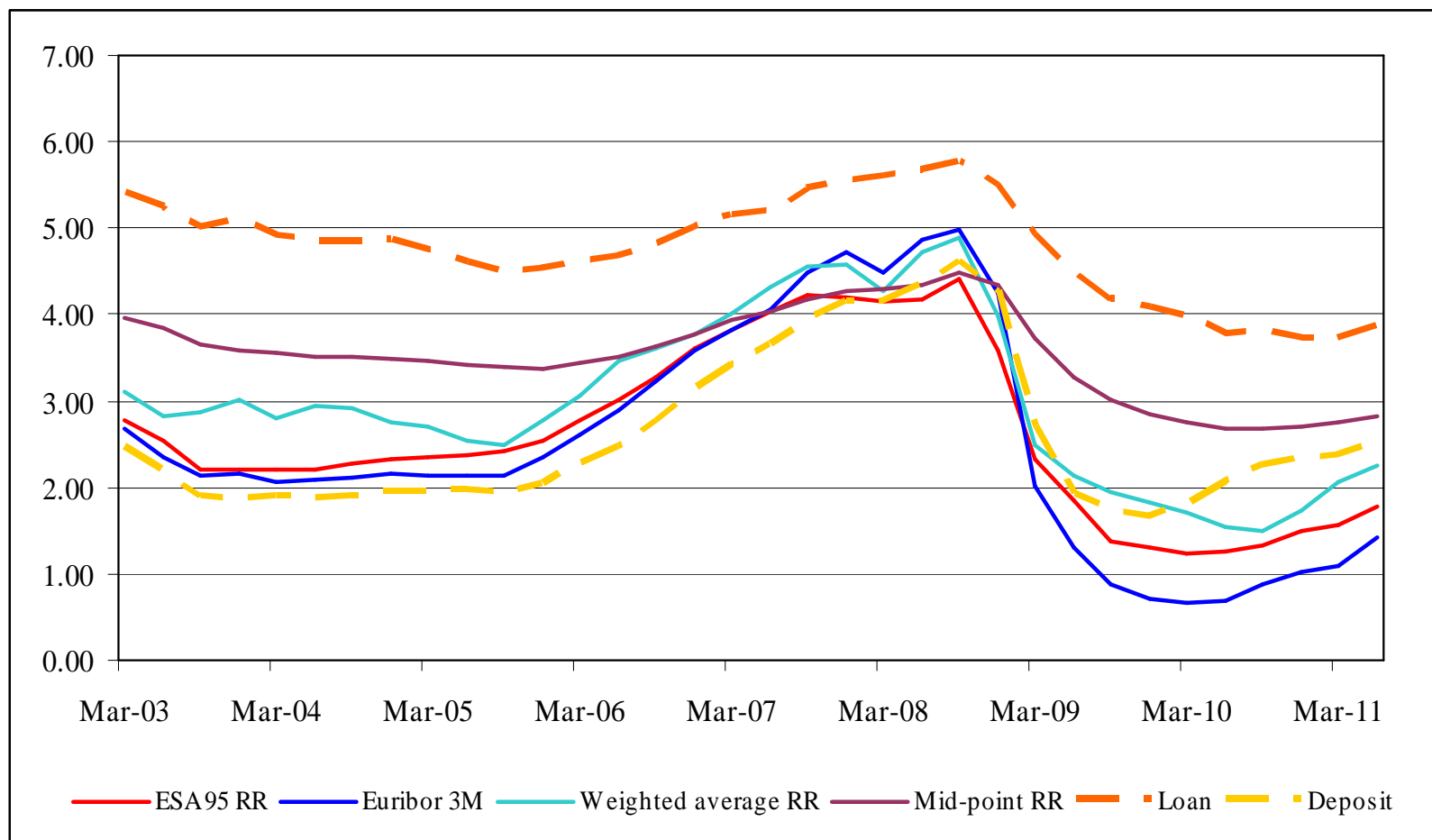
Term-spread adjustment: the options under testing

Reference rates under the various approaches



Term-spread adjustment: the options under testing

Bank retail rates compared to reference rates



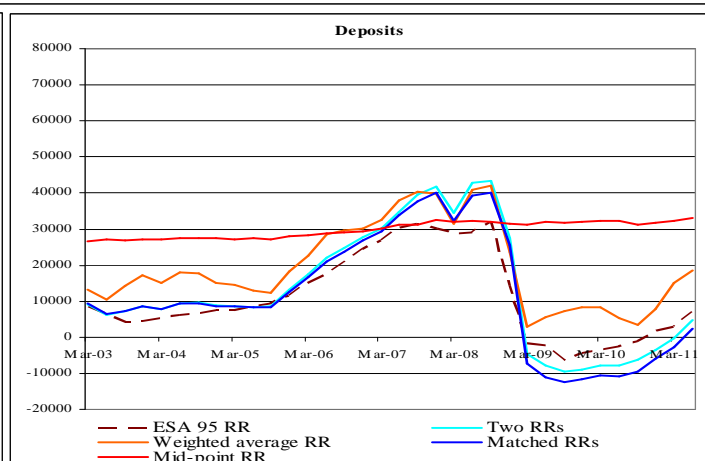
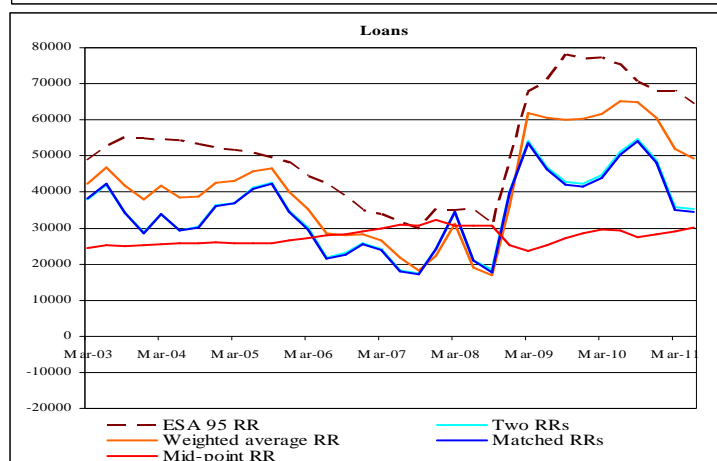
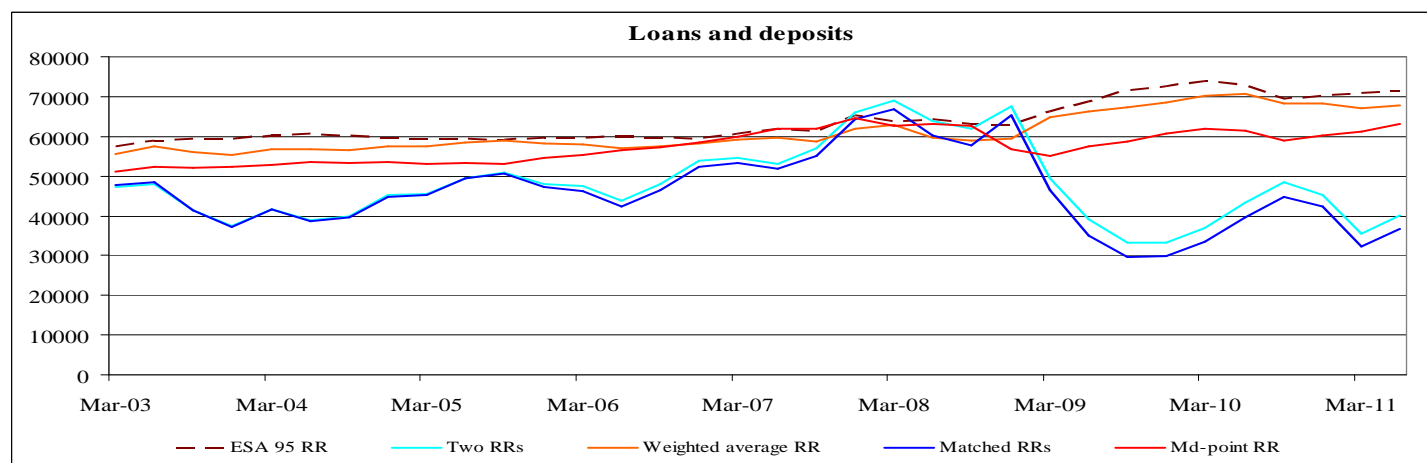
Term-spread adjustment: the options under testing

Some considerations in favour of different reference rates for short and long-term operations:

- If the term premium should be included in FISIM, the weighted average method is not the right choice
- FISIM and economic literature
- Conceptual soundness vs. practical considerations
- Simplicity as a criterion
- The concern of negative FISIM

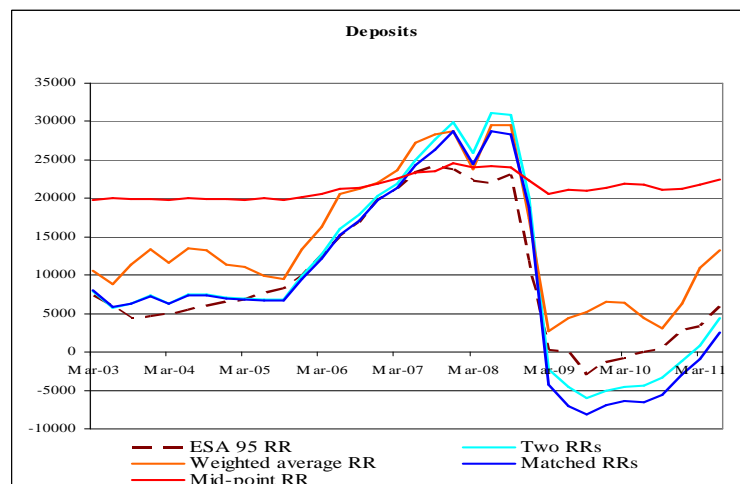
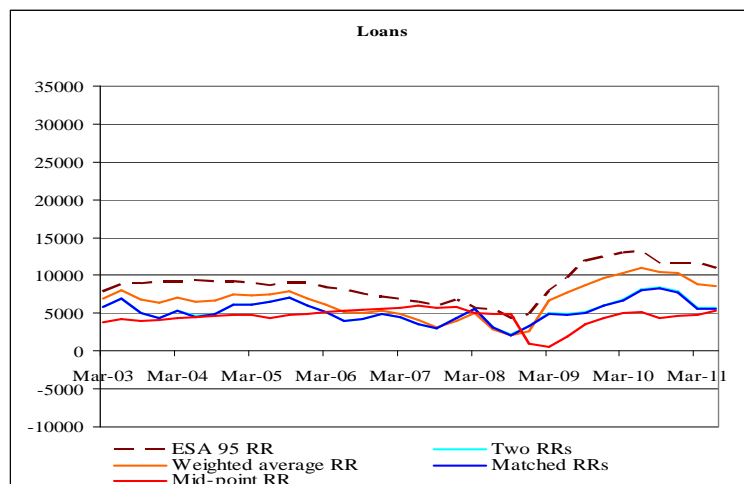
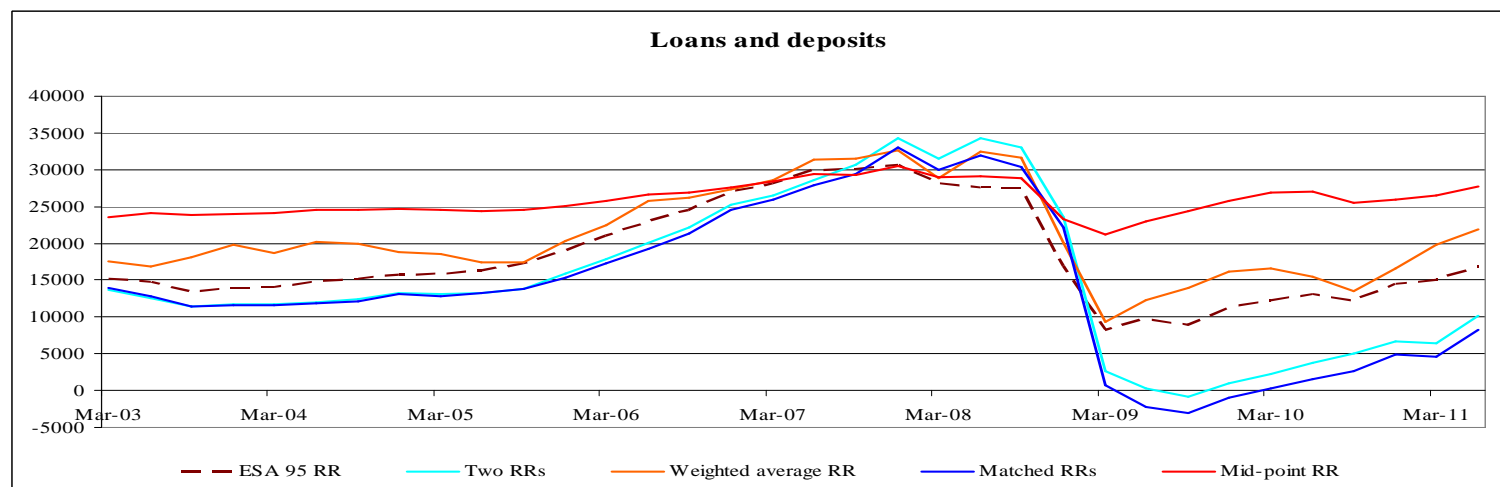
Estimated FISIM output for the euro area

FISIM contribution to bank output



Estimated FISIM output for the euro area

FISIM contribution to GDP



Conclusions

- Preference for the **method based on two reference rates**
 - broadly equivalent but simpler than the *matched* reference rate approach
 - **conceptually sounder** than all other proposals
 - consistent with economic literature
- The ***weighted average* reference rate method**
 - is not so different from the current approach
 - delivers different results from the method based on two reference rates
 - is less prone to negative FISIM margins on deposit, but this is, in our view, not a good reason for its adoption
- Any method should be first justified on conceptual grounds, and negative FISIM may reflect economic reality