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 work of the TFs concentrated on four aspects:

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

- ESA 95 RR
- Euribor 3M
- Swap 5Y
- Weighted average RR
- Mid-point RR
Term-spread adjustment: the options under testing

Bank retail rates compared to reference rates

![Graph showing bank retail rates compared to reference rates over time]

- ESA95 RR
- Euribor 3M
- Weighted average RR
- Mid-point RR
- Loan
- Deposit
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

Loans and deposits

Loans

Deposits

Loans and deposits over time for the euro area, showing the contribution of different methods to bank output.
Estimated FISIM output for the euro area

FISIM contribution to GDP

Loans and deposits

Loans

Deposits
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