

Problems with the Measurement of Banking Services in a National Accounting Framework

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The System of National Accounts' financial intermediation services indirectly measured (FISIM) concept of nominal output for financial services on loans and deposits is widely accepted in principle, but its implementation has been the subject of ongoing discussion among national accountants for over 20 years. This paper provides a new angle on the problem by deriving FISIM from straightforward cash flow relationships applying to any enterprise producing directly priced output and possessing nonfinancial assets as well as financial assets and liabilities. The analysis reveals a clear relationship between the financing cost of nonfinancial capital and the levels of the reference rate(s) determining the financial service margins on financial instruments. This relationship limits the range of the reference rate(s) applied to financial instruments in determining the nominal value of financial services output: the reference rate(s) on assets cannot be too high, nor the reference rate(s) on liabilities too low. This implies a lower bound on FISIM, whether computed with multiple reference rates or a single reference rate. We explore the implications in nominal and volume terms and using U.S. bank data.