Financial intermediation services indirectly measured (FISIM)

What is FISIM?

For most producers, the value of their production can be directly estimated on the basis of income achieved in connection with sales of services. As far as producers of financial intermediation services are concerned (banks, typically), this procedure cannot be used immediately, due to the circumstance that part of the payment for their services is not achieved by direct sales of services with a fixed price, but by means of a higher rate of interest for loans than the one used for deposits (interest differential). For that part of the payment for financial intermediation services that is achieved through the interest differential, the national accounts use the designation financial intermediation services indirectly measured or abbreviated FISIM.

Change in the method used for FISIM

In connection with the switch-over to the present edition of the European System of Accounts (ESA95), the EU decided, for practical reasons, to apply a relatively simple procedure for compiling FISIM in connection with the reporting of data by the member states. This decision has now been changed, implying that a method is used, which on the basis of methodological considerations are preferable, when data in future are reported.

The previous national accounts and FISIM

According to the previous method the production of FISIM was included as part of the production value of the financial companies, but as the entire production is assumed to be used as intermediate consumption, the production of FISIM does not lead to an increase in the national product. The use of FISIM as intermediate consumption is not distributed by each individual industry, so that value added by each individual industry is estimated, exclusive of their consumption of FISIM. Consequently, value added in each industry is overestimated, but in connection with aggregating value added by the industries in order to achieve total value added of the nation (national product), this overstatement is adjusted.

This also applies to the calculation of the sectors. Valued added and gross operating surplus are overstated by an amount corresponding to the FISIM that has been applied as intermediate consumption. However, interest receipts and interest payments of the sectors are estimated, exclusive of FISIM, so that primary income, disposal income, gross savings and lending have been correctly estimated, i.e. with deductions of expenditure on FISIM. However, for the financial companies a correction is required, because FISIM are included in both their production value and in their interest receipts and interest payments. The adjustment of this double entry is effected by making a deduction corresponding to the value of the produced FISIM in connection with the calculation of the primary income.
National accounts and FISIM after the data revision

The most important consequences of the new method are that the assumption that the entire production of FISIM is used as intermediate consumption, is replaced by a distribution of the use by intermediate consumption, exports and final consumption, and that an estimate of imports of FISIM will be made, so that total resources are higher. The changes imply that the production of FISIM will make a contribution to the national product of about 1 pct., as only a part of the FISIM is used for intermediate consumption. At the same time, value added by industries and sectors is now calculated without an overstatement, as actual consumption of FISIM is deducted. Interest receipts and interest payments in the national accounts are estimated in accordance with the new method, exclusive of FISIM, so that a special correction of the sectoral data concerning the financial companies is not needed. However, the concept of interest rate in the national accounts will differ considerably from the concept of interest rate that is usually applied in accounts, and which includes FISIM.