

## **Japan: Comments on the ‘Recommendations on the measurement of the production of central banks (SNA/M1.04/16)’.**

The ‘Recommendations on the measurement of the production of central banks (SNA/M1.04/16)’ has some logical problems, as explained below. Therefore the ‘Recommendations (SNA/M1.04/16)’ is inappropriate to be adopted in the 1993 SNA rev.1.

### **1. Inappropriateness in measuring the output of central banks using the FISIM method**

In the ‘**Provisional Recommendations on the measurement of the production of (non-insurance) financial corporations (SNA/M1.04/15)**’, a substantial change has been made to the original 1993 SNA for recognizing the production of financial corporations. The ‘**Recommendations (SNA/M1.04/15)**’ proposes to change the definition of the production of financial corporations from “Intermediation” activity (1993 SNA) to ‘**Risk Management**’ and ‘**Liquidity transformation**’ activity.

From the above proposal, the 1993 SNA that defines the output of central banks as FISIM, (i.e. the difference between interest receivable less interest payable) and the ‘Recommendations (SNA/M1.04/16)’ (this method will be referred to as: FISIM method) have the following problems.

#### **(1) Lack of accuracy**

The FISIM method measures only part of the central banks’ economic activities. We do not expect that central banks only provide two types of services: financial intermediation services measured by the FISIM method, and services which should be measured by the fees or commissions charged.

#### **(2) Inconsistency with the System**

The ‘**Recommendations (SNA/M1.04/15)**’ proposes to change the definition of the production of financial corporations from ‘Intermediation’ activity (1993 SNA) to ‘**Risk Management**’ and ‘**Liquidity transformation**’ activity.

However, paragraph 6.132 of 1993 SNA and the ‘Recommendations (SNA/M1.04/16)’ (on methods to measure central bank outputs) state that ‘The *services of financial intermediation provided by central banks* should be measured *in the same way as those of other financial intermediaries.*’

We think this statement has logical inconsistency with the above definition of the production of financial corporations proposed by the ‘**Recommendations (SNA/M1.04/15)**’.

## **2. Logical Problem in employing the ‘FISIM’ and ‘sum of costs’ methods to measure central bank outputs.**

The proposal to revise Paragraph 6.132 of the ‘the ‘Recommendations (SNA/M1.04/16)’ has a logical problem.

The ‘Recommendations (SNA/M1.04/16)’ proposes the usage of the FISIM and sum of costs methods for measuring central bank outputs. It recommends the usage of the FISIM method of the 1993 SNA in principle. In cases where the output obtained using the FISIM method appears exceptionally large, exceptionally small and even negative, it recommends the usage of the ‘sum of costs’ method.

However, **the central bank outputs measured by the FISIM method and by the ‘sum of costs’ method have a clear difference in the logical sense.**

When a central bank’s output (difference between interest receivable less interest payable) appears as a negative under the FISIM method, the output can be considered as ‘zero’, in terms of market output (in the SNA, it is possible that the difference between interest receivable less interest payable may appear as a negative, but this does not mean FISIM, as a market output, is also negative. In such a case, it is appropriate to interpret FISIM as ‘zero’).

The ‘Recommendations (SNA/M1.04/16)’ proposes the usage of sums of costs method in such a case, which changes **the central bank output (zero) to a positive figure.**

According to the 1993 SNA and the ‘Recommendations (SNA/M1.04/16)’ as services provided by central banks are measured using the FISIM method, the content of the services is defined as ‘financial intermediation’.

Therefore, it is natural that the question arises about the content of the central bank service when the central bank output changes from zero (i.e. zero financial intermediation, FISIM method) to a positive figure (sums of costs method).

When the difference between interest receivable less interest payable appears as a negative, **it is very clear that the central bank outputs measured by the ‘sum of costs’ method do not include the services of financial intermediation provided by central banks .**

How should we understand the difference between the content of central bank service measured by the FISIM method and measured by the ‘sum of costs’ method?