Measurement of FISIM Volumes by Deflating Loans and Deposits

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Presentation by Marshall Reinsdorf on “Measurement of FISIM Volumes by Deflating Loans and Deposits”

Although directly calculating volume indexes for FISIM from transaction counts may be an acceptable alternative, the main method used to measure FISIM volume is likely to be deflation of stocks of loans and deposits using some broad-based price index. To implement the deflated stocks approach, the usual practice has been to sum up all loans or all deposits, and then deflate the total loans or total deposits to arrive at borrower FISIM in volume terms or depositor FISIM in volume terms. Yet different kinds of loans or deposits have different margins between their interest rate and the reference rate, and thus are treated as having different prices in calculating nominal FISIM. Pooling different kinds of loans or different kinds of deposits therefore amounts to the use of a unit value measure of price change in circumstances in which index number methods are needed.

To implement the more appropriate index number approach, each type of loan or deposit must be deflated separately, and the various types of loans and deposits must be aggregated using a formula such as the Paasche price index (which corresponds to the Laspeyres volume index) or the Fisher price index. Mr. Reinsdorf provided an example based on US data, in which the price index for gross final domestic expenditures was used to deflate the various types of deposits for which data are available.