

# REFERENCE RATES AND TERMINOLOGY TO CALCULATE ISLAMIC FISIM

Joint Workshop on Statistical Treatment of Islamic Finance in National Accounts  
and External Sector Statistics and Experimentation of Guidelines in GCC Countries  
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# OUTLINE

- 1 Background
- 2 Issues Considered
- 3 Recommendations



# Background

- Two views on how to measure the financial services provided by Islamic deposit-taking corporation in the national and international accounts:
  1. Support the use of FISIM formulate in the 2008 SNA;
  2. The concept of FISIM does not apply to Islamic deposit-taking corporations as Sha'riah prohibits interest.
- Different views on the choice of reference rate to use in the FISIM formula. The discussions of the IFTF revealed that some economies are using separate reference rates to calculate the FISIM on conventional and Islamic deposits and loans which are denominated in the same currency.
- Subsequent empirical tests conducted by three economies (Indonesia, Malaysia, and the State of Palestine) showed that the differences in nominal FISIM when using a single reference rate and separate reference rate appeared to be quite significant. Also, the empirical test did not assess the impact on external trade in FISIM.
- To follow up on the work of the IFTF, the GN provides recommendations on the feasibility of using the FISIM formula to measure the financial intermediation services provided by Islamic deposit-taking corporations and the reference rates to use.

# Issues for Discussion

- **(Issue 5.1)** Relevance of using the FISIM formula to measure the financial services provided by Islamic deposit-taking corporations
  - Option 1: use the FISIM formula of SNA to measure it for Islamic deposit-taking corporations as the (1) difference between the rate paid to banks by borrowers and a reference (service-free) rate plus (2) the difference between the reference rate and the rate actually paid to depositors
  - Option 2: the concept of FISIM does not apply to Islamic deposit-taking corporations. The financial intermediation services would be measured, instead, as the sum of income generated on Islamic loan-like instruments less the distributions paid on Islamic deposit-like instruments.
- **(Issue 5.2)** Which reference rate to use to calculate the FISIM on Islamic deposits and loans if the FISIM formula is to be used
  - Option 1: Only one unique reference rate is recognized for conventional and Islamic FISIM
  - Option 2: One unique reference rate is recognized, with the explicit recognition of different risk profiles for Islamic deposit-taking corporations
  - Option 3: Different reference rates are recognized for conventional and Islamic FISIM.



# Issues for Discussion

- **(Issue 5.3)** The scope of the Islamic financial instruments to be included in the calculation of Islamic FISIM
  - Is it needed to consider Qard, Wadiah, Amanah, and Qard-hasan deposits/financing in the calculation of Islamic FISIM, as they pay discretionary or no investment income?
  - Should Islamic FISIM be calculated using an instrument-by-instrument classification as loans or deposits?
- **(Issue 5.4)** Which reference rate to use in the calculation of exports and imports of Islamic FISIM?
- **(Issue 5.5)** Which terminology to use in the Islamic FISIM formula?
- **(Issue 5.6)** Feasibility of inviting some economies to participate in empirical tests for some recommendations such as:
  - What reference rate to use to calculate domestic and cross-border FISIM on Islamic deposits and loans?

# Recommendations

- **(Issue 5.1)** The GN recommends that the FISIM formula should be used to calculate the financial intermediation services provided by Islamic deposit-taking corporations (Option 1)
- **(Issue 5.2)** Which reference rate to use if the FISIM formula is to be used to calculate the FISIM on Islamic deposits and loans

**No agreement reached** as various arguments support divergent views of members:

- For Option 1 (Only one unique reference rate is recognized for conventional and Islamic FISIM), the reference rate is a service-free rate and unique one that's used to derive the SNA interest and FISIM on conventional deposits and loans with varying characteristics.
- For Option 2 (One unique reference rate is recognized, with the explicit recognition of different risk profiles for Islamic deposit-taking corporations), this will provide flexibility to consider the variance between conventional and Islamic finance arising from the differences in their financing arrangements.
- For Option 3 (Different reference rates are recognized for conventional and Islamic FISIM), because the Islamic activity tend to be limited to an Islamic finance subsector comprising entities that seek to deposit in Islamic banks and choose to obtain Shari'ah-compliant financing.

# Recommendations

- **(Issue 5.3)** The members show preference to use total deposits and total loans rather than the more complex instrument-by-instrument approach to calculate Islamic FISIM.
- **(Issue 5.4)** The GN recommends that separate reference rates should be applied for each currency involved in cross-border Islamic deposits and loans.
- **(Issue 5.5)** The GN preconize to use the same terminology recommended on the issue on the terminology for investment income for Islamic deposits, loans and debt securities, for consistency.
- **(Issue 5.6)** The GN recommends to invite economies to participate in empirical tests on what reference rate(s) to use in the calculation of domestic and cross-border FISIM on Islamic deposits and loans, given the different views for Issue 5.2.

Thank you for your attention

