

TWINNING CONTRACT

Support to the Statistics

Kosovo



MISSION REPORT

on

2.1.2 Evaluation of work done on National Accounts
Component no 2 National Accounts

Mission carried out by
Clementina Ivan-Ungureanu, and Timmi Graversen
Statistics Denmark

1-5 February 2016

IPA 2012

Clementina Ivan-Ungureanu
Statistics Denmark
Sejrøgade 11
DK-2100 Copenhagen Ø
Denmark
Tel: +
Email: iu_clem@yahoo.com

Timmi Graversen
Statistics Denmark
Sejrøgade 11
DK-2100 Copenhagen Ø
Denmark
Tel: +45 39 17 38 65
Email: trg@dst.dk

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List of Abbreviations

ANA	Annual National Accounts
ESA 95	European System of Accounts 95
ESA 2010	European System of Accounts 2010
EU	European Union
GDP	Gross Domestic Product
IPA	Instrument for Pre-accession Assistance
IMF	International Monetary Fund
QNA	Quarterly National Accounts
QGDP	Quarterly GDP
KAS	Kosovo Agency for Statistics
NA	National Accounts
NACE rev.1	Nomenclature statistique des activités économiques dans la Communauté européenne, revision 1
NACE rev.2	Nomenclature statistique des activités économiques dans la Communauté européenne, revision 2
NAD	National Accounts Department
NOE	Non-Observed Economy
R&D	Research and development
SIDA	Swedish International Development Cooperation Agency
SBS	Structural Business Survey
SUTs	Supply and Use Tables
ToRs	Terms of Reference
VAT	Value Added Tax

Executive Summary

The mission carried out in component 2 – National accounts of the twinning project in the period 1-5 February 2016, had as main objectives to evaluate the state of National Accounts in Kosovo, to consider the sustainability of the twinning results and to discuss a plan for actions to be taken by KAS after the project finish (end of February 2016).

The action plan for the twinning project 2014-15 was elaborated taking into account the objectives of KAS, the human resources and the other on-going projects (IPA projects). The milestones decided were based on the current commitments and the twinning objectives. Their achievement depended not only on the development of national accounts, but on the progress of other statistical fields, as structural and short-term statistics, prices, social statistics (Households Budget Survey and Labour Force Survey) and the access to administrative data sources. As results of the fact that KAS signed in June 2014 a Memorandum of Understanding with Tax Authority, the detailed information necessary for national accounts compilation were available, in good quality and timeliness.

The action plan elaborated was very ambitious in its own right, but KAS developed a sustainable activity and with the project technical support, achieved an impressive part of the objectives proposed. The ESA 2010 was implemented and industry classification converted from NACE rev.1 to rev.2 and the revised time series of annual accounts for the period 2008-2013 was published at the end of 2014. An important achievement was the implementation of quarterly GDP (QGDP) estimated by production and expenditure approaches, at current and constant prices. The first results for the period 2010- first quarter 2014 were published in December 2014. The activity continued and the provisional estimates of annual GDP 2014, as sum of quarters, was available in June 2015. These estimates, analysed in rapport with the final version of annual GDP 2014 (released in November 2015) confirmed that the quarterly data provided quite consistent results. The SUTs 2013 at current prices is expected to be finalised by the end of the project and will constitute the basis for further development of national accounts.

Two objectives of the twinning project in the field of national accounts remained to be achieved in the future: the estimation of Non-Observed Economy (NOE) and compilation of SUTs 2014 at current and constant prices. A detailed action plan was elaborated at the end of 2013 for the estimation of NOE types and their integration into national accounts. Unfortunately, due to the lack of financial resources, the objectives couldn't be achieved.

The system of annual and quarterly national accounts build and developed in the frame of the twinning project, should be consolidated and improved in the future in order to be able to fulfil ESA 2010 transmission programme requirements (specially tables 1, 2 and 3).

1. General comments

This mission report was prepared within the Twinning Project „Support to Statistics” within Component 2 of the project. The mission was aimed to evaluate the results of the project and to design an action plan for further improvements in the field of national accounts.

The concrete objectives of the mission were:

- Checking and evaluating the state of National Accounts in Kosovo
- Considering sustainability of Twinning results
- Discussion of a plan for actions to be taken by KAS after the Twinning

The consultants would like to express their thanks to all officials and individuals met for the kind support and valuable information which we received during the stay in Kosovo, and which highly facilitated the work of the consultants.

This views and observations stated in this report are those of the consultants and do not necessarily correspond to the views of EU, KAS or Statistics Denmark and our implementation partners (NI-CO / Statistics Finland / Istat / Statistics Lithuania).

2. Assessment and results

The results of the project were discussed by the consultants during the mission with the staff and management of the NAD.

An integrated compilation and publishing system of annual GDP based on the expenditure and production approaches, at current and constant prices, as well as quarterly National Accounts started to be established in the frame of the work plan of KSS for 2015 and was achieved in the frame of the twinning project.

KAS published in November 2015 the annual GDP 2014, simultaneously, for the first time, the both approaches, by production and expenditure approaches, at current and constant prices. The quarterly GDP estimates are published in a regular way, starting with the first quarter of 2014 in December 2015; the third quarter 2015 will be published in the first part of February 2016, including the revisions of the quarters 2014, benchmarked to the annual estimates.

The work plan and the achievement realised in national accounts in the frame of the twinning project are presented in table 1.

The first estimates of QGDP by production and expenditure approaches, at current and constant prices will be published at the beginning of December 2014; the activity will continue next year, and in June 2015 the first version of annual GDP 2014, as sum of quarters, by production and expenditure approaches will be available. In the same time, it is foreseen to elaborate and publish semi-final version of annual GDP 2014 by production and expenditure approaches, at the same time, in November 2015.

Table 1. Achievements of the action plan

Activity 1. Annual National Accounts (ANA) improvement

Kosovo started the ESA 2010 implementation under IPA 2011 project (carried out in the period 2013-2014). A road map for the implementation of the new methodology was elaborated and the activity was focussed on the following topics:

- Production boundary: research and development (R&D),
- FISIM and its allocation between users
- Output of Central Bank and of non-life insurance production
- Non-financial assets: weapon system.

The other changes requested by ESA2010 were considered either not relevant for Kosovo economy, or, due to the limited human resources of KAS, not possible to be implemented in the next period.

Along the implementation of ESA 2010, a revision of annual data started in the frame of IMF project, concerning estimation of: (i) output and intermediate consumption of non-financial units;(ii) output of government (including a new method for CFC calculation), (iii) Household Final Consumption (HFC) (iv) imputed rent based on user cost method using data from Population and Housing Census carried out in 2012 and (v) estimation in constant prices of government output and taxes on products.

The IPA and IMF projects was work in progress when the Twinning project began in 2014. The completion of these projects was included in the planning of the Twinning project.

KAS implemented the new classification of the activity, NACE rev.2. A special survey was conducted in 2013 for 27000 units in order to establish the correspondence table between NACE rev.1 and NACE rev.2. Based on the conditions of the country and the results of the survey, a transition table was realised by the Department of Economic Statistics and was available at the end of August 2014. This conversion table was used by NAD for the estimation of output and intermediate consumption by activity, based on NACE rev.2. The estimates have been realised for the period 2008-2013 and were published at the end of November 2014.

At present, a time series of annual GDP, by production and expenditure approaches, at current and constant prices, based on ESA 2010 methodology is available for the period 2008-2014. It should be underlined the fact that KAS eliminated the gap between the publication of GDP by production and expenditure approaches; in November 2015, for the first time, GDP estimates by the two approaches was integrated, balanced and published together. This achievement was integrated in the compilation process and in the advance release calendar established for 2016 the publication of GDP by production and expenditure approaches, at current and constant prices is planned for 3rd November 2016.

Activity 2. Quarterly GDP

With the support of twinning project, KAS developed an intense activity for the implementation of quarterly national accounts. The implementation process began with the estimation of QGDP by production and expenditure approaches for the years 2010-2013, for which annual data were available.

The estimates of QGDP were realised based on the available statistical and administrative data sources, such as: the turnover for VAT purposes, provided by Tax Authority, financial statements of financial units (Central Bank, other commercial banks, and insurance companies), government expenditures and revenues provided by Ministry of Finance, balance of Payments data (BoPs) provided by Central Bank, and prices compiled by KAS (Producer Price Index (PPI), Consumer Price Index (CPI) and agriculture output and inputs prices).

The main objectives of work plan elaborated in the frame of the twinning project were achieved and the first estimates of QGDP for the period 2010- first quarter 2014, based on ESA 2010 methodology, by production and expenditure approaches, at current and constant prices were disseminated in December 2014. The activity continued, and the annual GDP as sum of quarters was published in June 2015. The annual GDP 2014 compiled using annual data sources was published in November 2015. The differences between annually and quarterly estimates were not significant (in nominal term, annual GDP was higher than sum of quarters with 1.5 %, and the real growth rate with 0.3%) and are due, specially because of the differences in data sources used. The results obtained for 2014 prove that the methodology established for QGDP compilation provide reliable estimates.

The quarterly data for 2014 were revised and benched to annual results; the new data, along the revision of the first two quarters of 2015 will be published on 12 February 2016.

Activity 3 - Elaboration of Supply and Use Tables (SUTs)

SUTs represent an important tool for the national accounts improvement in quarterly and annual basis. For this reason, in the frame of the twining project started the compilation of SUTs for 2013. The frame of SUTs and the details of calculations were decided; the consistency of the tables will be ensured for NACE rev.2 at 2 digits level and CPA at 2 digits level.

Several activities were carried out during the year 2015 for the collection of data, codification of information and integration of indicators in the SUTs structure. An intense activity will be developed by the end of the project for finalisation the estimation of the supply and uses components and for the balancing the system.

It can be considered that part of the objectives planned for this component will be achieved. In the compilation process of SUTs, the team faced with unexpected problems and additional work, due to the low quality and inconsistency of information provided by several data sources (specially SBS and PRODCOM). For this reason, compilation of SUTs 2014 was not possible to be realized during the project. This task might be achieved by KAS, following the frame and the compilation procedure established for 2013.

Activity 4. Improve the methodology and the statistical measure of the non-observed economy (NOE)

KAS, with the support of IPA 2011 elaborated at the end of 2013, an action plan for the estimation of non-observed economy (NOE) based on the Eurostat tabular approach. For the estimation of NOE types (N1 to N6) the action plan proposed several surveys in enterprises and households. KAS was looking to find financial support from different donors but any result was achieved. In this condition, the annual and quarterly GDP include any estimation of NOE.

3. Sustainability

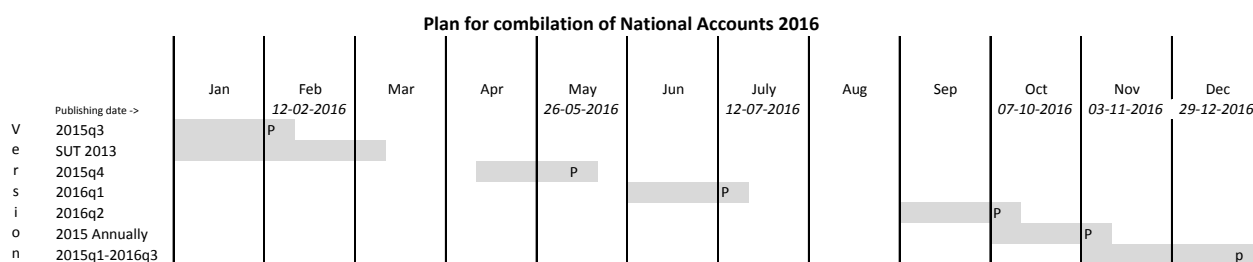
The results of the NA-division are quite impressive and they have been able to produce the planned versions of quarterly and annual National Accounts during 2015. The staff seems confident that they will be able to continue the regular production of National Accounts according to plan in 2016.

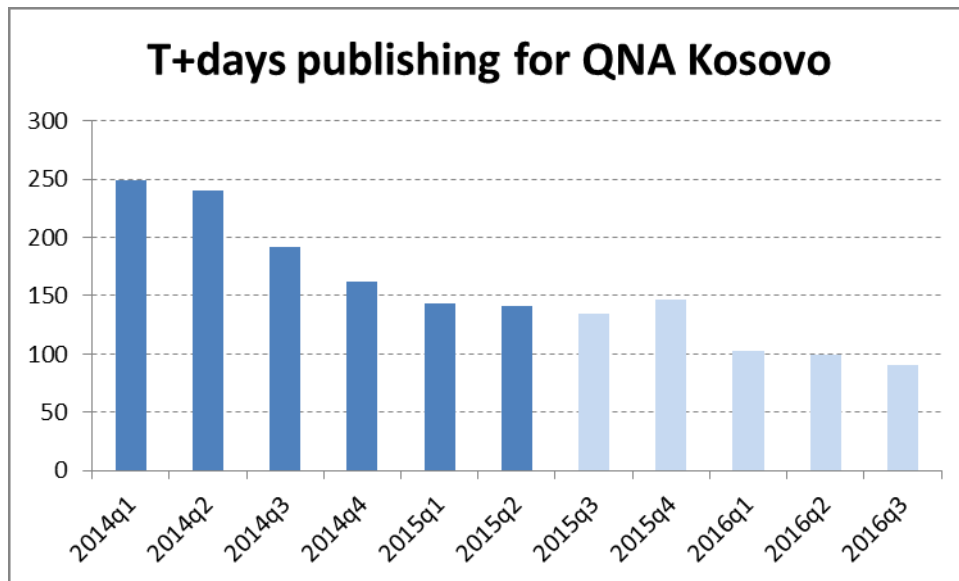
The capacity to embark on major extensions beyond the present scope of NA calculations will be limited. The staff has been reduced in connection with the closing down of twining project and there are no actual plans for further support to the development of the NA in Kosovo.

The SUTs is expected to be balanced and completed in the beginning of March. It is not necessary to compile a full SUT for every year so it should be carefully evaluated whether it is possible to continue the compilation of SUTs for 2014. This should be weighed against the clear advantages to be gained by keeping the obtained knowledge on SUT compilation in the organization. Also the experience gained in the processing of the SBS for National Accounts purpose will be a valuable capacity to preserve in KAS.

For the short and midterm future the NA division should focus on consolidating the good results obtained. To continue producing the established scope of the National Accounts compilations in a regular current production process according to schedule and to keep improving the precision and reliability of the results by continuously integrating new data sources and methods.

From 2016, KAS is expecting to publish the first annual results for t-1 with the quarterly national accounts for 4th quarter of 2015 in May 2016. The revised annual results for 2015 based on SBS2015 will be published in November 2016. KAS is expecting to gradually reduce the compilation period for QNA and plan to publish QNA for the 3rd quarter of 2016 with a delay of only three months at the end of December 2016.





In order to ensure the sustainability, KAS should focus on the **consolidation** of the twinning achievements. The main activities to be carried out refer to:

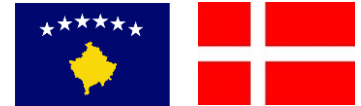
- Obtain routine in calculation procedures and continue to improve data sources and compilation methods in the established system;
- Organize data storage in the National Accounts system so that versions in quarterly and annual accounts are handled in a systematic way (in principle each version should be reproducible);
- Monitor revisions in published results (GDP growth rate);
- Develop procedures for handling user interventions and cooperation with major stakeholders like the Central Bank and the Ministry of Finance;
- Develop a fixed revision policy and consider how to handle new benchmark levels like SUT 2013;
- Complete table 1 of the ESA 2010 transmission program;
- Introduce annual overlap chaining and seasonal adjustment to the quarterly national accounts;
- Improve estimates of the Non Observed Economy and integrate them in national accounts.

4. Conclusions and recommendations

It can be concluded that the objectives of the twinning project were achieved and significant improvements on national accounts were realised during the last two years.

It is strongly recommended to consolidate the system build by improving the statistical data sources in terms of content and dissemination deadlines and to elaborate a proper dissemination and revision policy agreed with the main users.

Annex 1. Terms of Reference



EU Twinning Project
KS12 IB ST 01
Support to Statistics

Terms of Reference:

Component 2: National Accounts

Activity 2.1.2: Evaluation of work done on National Accounts

Scheduling:

Tor –ready date: 18 January 2016

Start / end of activity: 1-5 February 2016

Reporting time: 12 February 2016

Mandatory result of the component:

Mandatory Result	Intervention logic	Benchmarks	Sources of information	Assumptions
2.1.1 2.1.2	Assessment and update of action plan Evaluation of work done during the Twinning project	<ul style="list-style-type: none"> Mission report uploaded on project homepage Updated action plan for National Accounts in Kosovo including operational plan/ programming of the activities in 2.2 developed Evaluation of benchmarks for NA 	<ul style="list-style-type: none"> Twinning quarterly reports Mission Report Updated action plan 	<ul style="list-style-type: none"> Sufficient absorption capacity Low turnover of staff involved in implementation Staff works on project related tasks in between missions Access to accurate primary statistics A detailed Terms of Reference is developed in a timely manner detailing tasks (input), expected output, participants of the activity and agenda

Subject / purpose of activity: 2.1.2 activity

Consultations and discussions with unit of National Accounts. At the end of the Twinning checking and evaluating the state of National Accounts in Kosovo. Furthermore to evaluate the short to medium term sustainability of KAS commitments to produce and publish NA and NAQ data after the Twinning

Expected output of activity 2.1.2:

Mission report. Stating results of the evaluation and comparing the result with the expected mandatory results. Furthermore commenting on each mandatory result for NA, QNA and SUT.

Mandatory results of Component 2, NA, Twinning project KAS:

Mandatory result	Intervention logic	Benchmarks
2.1	Increasing compliance with ESA2010, including improvement in the estimation of production, intermediate consumption and value added for all activities of the economy.	<ul style="list-style-type: none"> • Improved methodology for National Accounts in accordance with ESA2010 by 8th project quarter • Methodology for producing annual GDP by production and expenditure improved by 8th project quarter
2.2	Estimation of National Accounts in constant prices based on improved price indices	<ul style="list-style-type: none"> • Methodology for estimation of National Accounts in constant prices improved by 8th project quarter
2.3	Mandatory result 2.3 added by addendum #1: Improved coverage and relevance of National Accounts and improved the quality of primary data used for compilation of National Accounts through preparation of SUT (Supply and Use Table)	<ul style="list-style-type: none"> • Feasibility study for compilation of SUT for Kosovo prepared by the 8th project quarter • As the feasibility study was positive our consultants and KAS is continuing the work on SUT. This work will continue right to the end of the Twinning project.

KAS resources:

Mrs. Xhevrie Fetahu, Head of division for National Accounts, xhevriefetahu@gmail.com, KAS

Ylli Shala, senior officer of National Accounts, Ylli.Shala@rks-gov.net

Ilir Mazrekaj, senior officer of National Accounts, ilir.mazrekaj@gmail.com

Emine Bajrami, senior officer of National Accounts, alzana76@gmail.com
 Florije Krapi, senior officer of National Accounts, Florije.Krapi@rks-gov.net,
 Nysret Sylejmani, senior officer of National Accounts,
nysretsylejmani8@gmail.com
 Besim Mehmeti, senior officer of National Accounts, Besim.Mehmeti@rks-gov.net
 Ilir.T. Berisha, director of Economic Statistics and National Accounts,
Ilir.T.Berisha@rks-gov.net

KAS Twinning team:

Project Leader Mr. Ilir T. Berisha, Director of Economic Statistics and National Accounts, Ilir.T.Berisha@rks-gov.net
 RTA Counterpart Ms.Teuta Zyberi, International Relations Officer,
teuta.zyberi@rks-gov.net

Member state resources:

Ms Clementina Ivan-Ungureanu, Expert, Statistics Denmark, clementina@ivan-ungureanu.ro
 Mr Timmi Roelle Gravesen, NA, Statistics Denmark, trg@dst.dk

Twinning resources:

Mr Per Knudsen, RTA, pkn@dst.dk
 Ms Nora Zogaj, RTA assistant, nzogaj@yahoo.com

Description of the background for the activity

By the end of quarter seven 15 Twinning missions on National Accounts and Quarterly National Accounts have been accomplished.

During the first mission in January 2014 the 2012 Adapted Global Assessment report (AGA) prepared by Eurostat was discussed. The AGA states the following about National Accounts: *In 2010 KAS prepared with IPA support an “Action Plan for compiling and publishing comprehensive statistics on National Accounts and labour market”. That Plan is in principle a useful instrument to organize the future development of National Accounts together with the development of standards and sources that are needed for the enhancement of coverage and improvement of National Accounts data. However, it appears that the Action Plan already needs a complete update of the fulfillment of the activities.*

The Twinning Project therefore dedicated the first activity on National Accounts for updating the action plan and to assist KAS in extending the action plan with a midterm operational plan. The activity was conducted by the same experts as in the present mission. During the mission in January 2014 the action plan was revised (see the report mentioned below)

Activities to be undertaken in preparation for the mission:

- Mission Report 2.1.1 Assessment and update of action plan (Ivan-Ungureanu, Statistics Denmark and Timmi Graversen, Statistics Denmark)
- All mission reports on NA and QNA are available at dts.dk/kosovo

The expected activities are:

- Checking and evaluating the state of National Accounts in Kosovo
- Considering sustainability of Twinning results

- Discussion of a plan for actions to be taken by KAS after the Twinning

Expected output:

- Mission report – according to template
- A plan for KAS to ensure sustainability of NA Twinning results
- A list of achieved Twinning results compared to mandatory results

Annex 1. Agenda, - 1-5 February 2016

Day	Time	Event
1	10:00	Planning the week and the agenda Consultations with key persons
2	09:00-16:00	Analysis of the activities carried out and the results obtained
3	09:00-16:00	Analysis of the activities carried out and the results obtained
4	09:00-16:00	Discussion of further activity to be carried out by KAS
5	09:00-16:00	Report writing Debriefing: Experts, Component Leader and RTA

Annex 2. Persons met

KAS:

National Accounts

Ilir Berisha, director of Economic Direction,

Xhevrie Fetahu, head of National Accounts Department,

Ylli Shala, Ilir Mazrekaj, Emine Bajrami Florije Krapic, Nysret Sylejmani, Besim Mehmeti

SBS and Business register

Hysni Elshani, Head of Economic Statistics Department and Muhamet Kastrati, expert

RTA Team:

Per Knudsen, RTA

Nora Zogaj, RTA Assistant