

# TWINNING CONTRACT

AM/14/ENP/ST/15

## Strengthening of the National Statistical System of Armenia – Phase II



### MISSION REPORT

on

#### Labour Market Statistics

##### Activity 3.3: Labour costs and labour costs index I

Mission carried out by

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31 October – 4 November 2016

Final version



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**Table of contents**

1. General comments..... 4

2. Assessment and results..... 4

3. Conclusions and recommendations ..... 6

Annex 1. Terms of Reference ..... 8

Annex 2: Programme for the mission ..... 10

Annex 3. Persons met..... 11

**List of Abbreviations**

EU	European Union
NSSRA	National Statistical Service of the Republic of Armenia
DST	Statistics Denmark
SES	Structure of Earnings Survey
LCI	Labour Cost Index
LCS	Labour Cost Survey

## 1. General comments

This mission report was prepared within the Twinning Project “Strengthening of the National Statistical System of Armenia – Phase II”. This was the fourth activity in component 3 and the actions planned for this activity were carried out as scheduled.

The purposes of the mission were:

- Discussion on data collection, sample, survey design, calculation
- Discussion on legislation concerning Labour Cost Survey (LCS) and Labour Cost Index (LCI)
- Identification of problems faced and possible solutions in respect to compliance with the European Commission Regulation
- To involve relevant stakeholders in the discussions

The MS experts would like to express their sincere thanks to all officials and individuals met for the kind support and valuable information which they received during the stay in Armenia and which highly facilitated their work. The views and observations stated in this report are those of the MS experts and do not necessarily correspond to the views of EU, NSSRA or Statistics Denmark.

## 2. Assessment and results

Armenia has for many years collected, calculated and published comprehensive statistics on labour costs. Labour costs are the expenditures borne by employers of employing staff, and are therefore recognized as an important and relevant statistics e.g. for employer organisations and enterprises with international activity.

Today the NSSRA make an annual survey of labour costs that cover the whole public sector and large and medium sized enterprises, and small and micro sized companies through a sample survey. It thus has a wide coverage, while at the same time it contains information on a wide range of important variables.

During this mission the MS experts evaluated the survey on other labour costs and came with suggestions as to how the NSSRA could proceed in order to have comparable statistics with the EU countries. The EU regulation on the Labour Cost Survey (LCS) was thoroughly presented by the MS experts, who also came with specific examples of variables from the Armenian survey that could be used for the variables in the regulation. This resulted in a fruitful discussion between MS experts and the NSSRA staff on the content of each variable and to what extent it was relevant for Armenia. It became clear that even though the Armenian survey at this point do not fully live up to the EU regulations on the LCS, only small amendments to the questionnaire are necessary to fully comply.

It was also discussed whether it is necessary for NSSRA to conduct the survey on a yearly basis as is done today. According to the EU legislation it is only mandatory to undertake the survey every 4th year, and the years that should be covered are 2016, 2020 and so on.

It became clear that the structure of the labour costs in Armenia to some degree is comparable to how it is in Denmark. In both countries earnings constitute more than 95 percent of total labour costs, while other costs (e.g. social contributions, taxes, etc.) only make out a small share. The importance of earnings varies among countries, and the MS experts gave as an example the Swedish/Danish case. While earnings are high in Denmark, they are relatively low in Sweden. But from an employer’s point of

view this information could be misleading as the social contributions in Sweden are much higher than in Denmark. As a consequence the total labour costs of the two countries are almost the same, despite the gap in earnings.

In addition to the labour cost survey, NSSRA are also interested in publishing figures on the evolution of labour costs over time, which is something that is already done by EU member countries today through the Labour Cost Index (LCI). Also here EU has provided legislation with specific details on variables and estimation methods. Today the NSSRA only collects and publishes a real wage index that is based on monthly data from all large and medium sized enterprise. The index has been calculated for a long time and has many users.

The MS experts held a presentation where they pointed out the most important features regarding the legislation. Many things had already been touched upon during the presentation on the labour cost survey, so there was no need of getting into details on the variables in the LCI. Instead the talk centred on how the LCI could be calculated using different sources, as the regulation on this issue is quite flexible. In Denmark the LCI is basically made out of two sources, the index of average earnings and the survey on other labours costs. The LCI is constructed by adding the level of the other labour costs to the average earnings per hours worked that stems from the index. The MS experts suggested that the NSSRA look into the possibility of doing something similar to this in order to create a LCI that can be compared to their neighbouring countries and the EU countries.

Another important element in the EU regulation concerning LCI is deliverance of seasonal adjusted data, i.e. data that has been modified to eliminate the effect of seasonal elements. Denmark and many other EU countries use a free software developed by Eurostat called DEMETRA to perform this task. For the LCI to be comparable with other countries, the MS experts recommended that NSSRA consider seasonally adjusting their indices by using the same software. NSSRA agreed on this and for the next mission the MS experts will guide NSSRA on how to use DEMETRA.

Although the mission mainly focused on labour costs there was also time to discuss the pilot study on structure of earnings that NSSRA are in the process of making. The fact that access to individual data collected by the RA State Revenue Committee has been denied NSSRA will instead conduct a pilot study of 100 enterprises located in Yerevan to contain information on earnings on an individual level. The MS experts see how the work on the sample and questionnaire for the pilot study are burdensome for the NSSRA staff who already are short of resources. Still the MS experts were impressed by the amount of work that had been done on the pilot study until now. The NSSRA were well prepared with questions on sample design and draft questionnaire, which made it possible to go into detail with many important issues concerning the pilot study.

Even though the pilot survey is in the making, the MS experts would like to stress that getting access to the RA State Revenue Committee database is extremely important in respect to data quality, response burden, reducing non-response rate, coverage, timeliness, providing new variables in high demand and using the state budget effectively. Using administrative data instead of surveys is the way forward for all NSI's also NSSRA. This is something NSSRA already have experienced when contacting enterprises to take part in the pilot study. They are wondering why they have to give information that have already been collected by another state authority.

Despite having received a negative answer from the RA State Revenue Committee regarding access to the database, the NSSRA will continue to work on creating a dialogue in order to perhaps get access sometime in the future.

During the mission, a stakeholders meeting was held to brief the most important users of the labour cost statistics in Armenia, of the state of play. Just as in the previous two stakeholders meetings (held during mission 3.1 and 3.2), the stakeholders showed deep interest and participated with questions and remarks on many of the issues raised by the representative of the NSSRA.

Among the issues raised were the pilot study of the SES, access to the database managed by the RA State Revenue Committee, the frequency of the LCS and the importance of publishing labour cost statistics that are comparable across countries. The MS experts gave a short presentation giving the example of Sweden and Denmark in order to make the stakeholders aware of the important difference between earnings and total labour costs.

The meeting also resulted in new insights, for example with the representative from the Ministry of Social Affairs that made NSSRA aware of a database that are planned for 2018 and that will contain information on earnings for the public sector.

After the meeting many of the stakeholders stood in line to talk with the NSSRA representative. In the MS experts opinion, this reflects the success of the meeting. The MS experts believe that the activity at the stakeholders meetings is a benefit that NSSRA has to take advantage of and so far that is also what the MS experts have witnessed. Many questions were also raised on the Labour Force Survey, and after the meeting it was discussed whether NSSRA should hold stakeholders meetings on this issue as there seems to be a demand for this among the users.

### **3. Conclusions and recommendations**

The survey on labour costs that NSSRA collects information for every year almost live up to the criteria set out in the European regulations on the Labour Cost Survey. The Armenian survey has been evaluated and suggestions been made on how the NSSRA can make changes that make them fully comply with the regulations. Before the next mission NSSRA should make a list of what variables from their current survey that can be used for the different variables in the LCS regulation. Furthermore, NSSRA should consider adding or changing questions in their survey to capture other relevant labour costs.

In a European context it is not necessary to conduct the labour cost survey on a yearly basis, as is done by the NSSRA today. The NSSRA is recommended to evaluate the frequency of the labour cost survey, taking into account both the costs associated with performing the survey and the needs of the users.

NSSRA has been introduced to the Labour Cost Index and how to calculate it. A possible solution to how the NSSRA can calculate the index using already available data was laid out. NSSRA will try to proceed with the solution suggested by the MS experts, and it was agreed that NSSRA try to put together the two sources before the next mission, so it can be assessed whether this is the right way to proceed to calculate the LCI. The MS experts on the other hand promised to give a lecture on how to seasonal adjust the index using DEMETRA, so the index also in this respect becomes comparable to other countries.

Regarding the pilot study on structure of earnings, NSSRA will continue working according to the plan. Before the next mission it is expected that the questionnaire has been tested on some enterprises and that the final questionnaire are posted on the NSSRA website, while software for data processing is being prepared.

Even though the pilot study is being carried out, NSSRA should still make sure to contact the State Revenue Committee again to hopefully start a dialog about getting access to the database.

**Homework to be done until next mission:**

<b>Action</b>	<b>Deadline</b>	<b>Responsible person</b>
List the variables from the national survey that belong to the different variables in the Regulation of 1737/2005 and consider amending the survey with new variables.	20 <sup>th</sup> February 2017	NSSRA
Consider changing the frequency of the LCS survey	20 <sup>th</sup> February 2017 or before deadline for input on the 2018 work programme.	NSSRA
Find relevant variables for the LCI and try to put an index on labour costs together.	20 <sup>th</sup> February 2017	NSSRA
Prepare for teaching on how to use DEMETRA for seasonal adjustment.	20 <sup>th</sup> February 2017	MS experts
Conduct the pilot study according to the preliminary time schedule	Ongoing	NSSRA
Send a new letter to the RA State Revenue Committing asking for dialogue on getting access to their database.	20 <sup>th</sup> February 2017	NSSRA

## Annex 1. Terms of Reference

### Terms of Reference

#### EU Twinning Project AM/14/ENP/ST/15

**31 October – 4 November 2016**

#### Component 3: Labour Market Statistics

#### Activity 3.3: Labour costs and labour costs index I

### 0. Mandatory results and benchmarks for the component

Mandatory results:

- Labour cost, labour cost index, structural statistics on wages calculated and published (July 2017)

Benchmarks:

- Labour cost and labour cost index calculated and published (July 2017)
- Structural statistics on wages calculated and published (July 2017)
- Staff of NSSRA trained on issues related to the labour cost, labour cost index, structural statistics on wages (July 2017)

### 1. Purpose of the activity

- Discussion on data collection, sample, survey design, calculation
- Discussion on legislation concerning Labour Cost Survey (LCS) and Labour Cost Index (LCI)
- Identification of problems faced and possible solutions in respect to compliance with the European Commission Regulation
- To involve relevant stakeholders in the discussions

### 2. Expected output of the activity

- Problems identified
- Recommendations on data collection, sample, survey design, calculation
- Overview of legislation
- Methodology reviewed A lining up of work programme for the next activities
  - 3.5: Labour costs and labour costs index II (February 2017)
  - 3.6: Follow-up on achievements (April 2017)

### 3. Participants

#### NSSRA

##### Component leaders

- Mr. Gagik Gevorgyan
- Ms. Lusine Kalantaryan

##### Other staff

- Ms. Susan Hunanyan, Senior Specialist, Labour Statistics Division
- Ms. Anya Soghomonyan, Senior Specialist, Labour Statistics Division
- Ms. Jemma Avoyan, Leading Specialist, Labour Statistics Division
- Ms. Anahit Simonyan, 1<sup>st</sup> class Specialist, Labour Statistics Division
- Ms. Karine Sargsya, 1<sup>st</sup> class Specialist, Labour Statistics Division
- Ms. Siranush Zeynalyan, 1<sup>st</sup> class Specialist, Labour Statistics Division
- Mr. Vardan Arevshatyan, Head, Business register, Sampling and Classifications Division
- Ms. Anahit Manandyan, Head, Internal Audit Department
- Ms. Lusya Khachatryan, Head, Macroeconomic Indicators and National Accounts Division

#### MS experts

Ms. Maria Boye, Expert, Statistics Denmark

Ms. Hege Susanne Hauglund, Expert, Statistics Denmark

#### Other stakeholders taking part in the activity

Staff from Social Partners will also be invited:

- Ministry of Labour and Social Issues of RA
- Ministry of Economy of RA
- Ministry of Finance of RA
- Central Bank of RA
- Confederation of Trade Unions of Armenia
- Republic Union of Employers of Armenia
- Armenian State University of Economy
- State Revenue Committee of RA

## Annex 2: Programme for the mission

<b>Time</b>	<b>Place</b>	<b>Event</b>	<b>Purpose / detail</b>
Monday, noon (31/10)	NSSRA	Meeting with RTA	To discuss the programme of the week
Monday, afternoon (31/10)	NSSRA	Meeting with BC Component Leader and BC Experts	Assessment of situation and presentation by <b>BC</b> of the expected outcome of current mission
Tuesday, morning (1/11)	NSSRA	Meeting with BC Component Leader and BC Experts	Discussion of issues on Earnings pilot study, data collection, sample, survey design, calculation and publication
Tuesday, afternoon (1/11)	NSSRA	Meeting with BC Component Leader and BC Experts	Presentation by <b>MS Experts</b> and discussions of legislation concerning Labour Cost Survey (LCS) and Labour Cost Index (LCI)
Wednesday, morning (2/11)	NSSRA	Meeting with BC Component Leader and BC Experts	Discussions of identified challenges and possible solutions in respect to compliance with the European Commission Regulation
Wednesday, afternoon (2/11)	NSSRA	Meeting with BC Component Leader and BC Experts	Discussions of methodology and preliminary plan for publication of labour costs data
Thursday, morning (3/11) (11:00)	NSSRA / <i>Meeting room</i>	Meeting with stakeholders	Meeting with stakeholders
Thursday, afternoon (3/11)	NSSRA	Meeting with BC Component Leader and BC Experts	Preparation of final conclusions, road map and Mission Report
Friday, morning (4/11)	NSSRA	Meeting with BC Component Leader	Presentation of <b>MS Experts'</b> findings and agreement on the reached conclusions
		Ad-hoc meetings	Final clarifications with BC Experts, preparation of report and presentation for BC Project Leader
Friday, afternoon (4/11)	NSSRA	Debriefing with BC Project Leader	Conclusions and decisions and their consequences for the next activity and the implied work programme for BC Experts

### **Annex 3. Persons met**

#### **NSSRA:**

Stepan Mnatsakanyan, President of the NSS RA  
Anahit Safyan, Member of the State Council on Statistics of RA  
Lusine Kalantaryan, Head of Labour Statistics Division  
Jemma Avoyan, Leading Specialist, Labour Statistics Division  
Susan Hunanyan, Senior Specialist, Labour Statistics Division  
Anna Soghomonyan, Labour Statistics Division  
Karine Sargsyan, First Class Specialist, Labour Statistics Division  
Ani Aloyan, Internal Audit Department  
Nvard Grigoryan, Business register, Sampling and Classification Division  
Anush Khamoyan, International Statistical Co-operation Division

#### **External stakeholders:**

Ruzanna Arakelyan, Armenian State University of Economy  
Lilit Ghantarchy, National Institute of Labour and Social Research  
Armine Matosyan, Ministry of Labour and Social Issues of RA  
Tigran Baghdasaryan, Statistical Department, Central Bank of RA  
Samvel Margaryan, Macroeconomic Policy Department, Ministry of Finance of RA  
Vanuhi Mnatsakanyan, Macroeconomic Policy Department, Ministry of Finance of RA  
Narine Sargsyan, Republican Union of Employers of Armenia  
Hasmik Tadevosyan, State Employment Agency  
Karine Madoyan, Confederation of Trade Unions of Armenia  
Gayane Avetisyan, RA State Renewal Committee, Statistics, Analysis and Risk Management Department  
Alik Sargsyan, Ministry of Economy of RA, PAO

#### **RTA Team:**

Peter Bohnstedt Anan Hansen, Resident Twinning Adviser  
Liana Atoyan, RTA Assistant  
Anush Poghosyan, RTA Language Assistant