

TWINNING CONTRACT

Support to the Statistics

Kosovo



MISSION REPORT

on

2.2.1.2 Continued review of annual accounts by production and expenditure approach (special focus on Quarterly National Accounts)

Component no 2 National Accounts

Mission carried out by
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9-20 February 2015

IPA 2012

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List of Abbreviations

ANA	Annual National Accounts
BoPs	Balance of Payments
BPM6	Balance of Payment and International Investments Position Manual, sixth edition
BEC	Big Economic Categories
CBK	Central Bank of Kosovo
CFC	Consumption of Fixed Capital
CPI	Consumer Price Index
ESA 95	European System of Accounts 95
ESA 2010	European System of Accounts 2010
EU	European Union
GDP	Gross Domestic Product
GFCF	Gross Fixed Capital Formation
GFC	Government Final Consumption
HFC	Households Final Consumption
IC	Intermediate consumption
IMPI	Import Price Index
IPA	Instrument for Pre-accession Assistance
IMF	International Monetary Fund
IT	Information Technology
LFS	Labour Force Survey
QNA	Quarterly National Accounts
QGDP	Quarterly GDP
KAS	Kosovo Agency for Statistics
MoU	Memorandum of Understanding
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
NPISHs	Non-Profit Institutions Serving Households
NOE	Non-Observed Economy
NGOs	Non-governmental organisations
PPI	Producer Price Index
R&D	Research and development
SIDA	Swedish International Development Cooperation Agency
SBS	Structural Business Survey
STS	Short term statistics
SUTs	Supply and Use Tables
ToRs	Terms of Reference

Executive Summary

The main objective of the present mission carried out under component 2 – *National accounts* of the twinning project was to continue the technical support provided to Kosovo Statistical Agency (KAS) in the field of quarterly Gross Domestic Product (QGDP) estimation. The estimation of QGDP for the second quarter of 2014 was analysed and recommendations for improvements provided. During the mission, the estimation of GDP for the third quarter started; the first estimates by production approach, at current and constant prices were available at the end of the mission.

In 2014, KAS implemented QGDP by production and expenditure approaches in the frame of IPA 2011 project and with the technical support from the twinning project. A time series was built for the years 2010-2013 based on annual data and the available statistical and administrative data sources. The previous mission carried out in the frame of the twinning project (1-5 December 2014) supported KAS to publish, for the first time, the QGDP data for the period 2010-first quarter 2014, at current and constant prices, by production and expenditure approaches.

During the present mission, the estimates of GDP for the second quarter 2014 by production and expenditure approaches, at current and constant prices were analysed and finalised, with a special attention for the balancing of the two approaches. The estimates were realised based on the available statistical and administrative data sources: turnover for VAT purposes, provided by Tax Authority, financial statements of financial units (Central Bank, other commercial banks, and insurance companies), quarterly indices of turnover of some industries (mining, manufacturing and electricity), PPI, CPI and agriculture output and inputs prices. The quality of quarterly estimates of GDP depends on availability and reliability of data sources. In Kosovo is a lack of statistical and administrative sources on quarterly basis: any information concerning agriculture, construction, services production, investments and changes in inventories is available. The turnover data provided by Tax Authority presented for some industries inexplicable differences between the first and second quarters of 2014 and in comparison with the previous year (2013). For this reason, it was strongly recommended that KAS makes more efforts in the near future for improvement of short term statistics (STS) and the collaboration with Ministry of Finance and Tax Authority to ensure the quality of data available.

The estimation of GDP for the third quarter 2014 started during the mission and the first results were available at the end of the mission. KAS have to finalise the estimation of government final consumption (GFC) and the gross fixed capital formation (GFCF) by April, when is planned the dissemination of GDP- third quarter.

The content of the press- release for the QGDP-second quarter was discussed; it was recommended that it includes the QGDP 2013, current prices, by production and expenditure approaches and the two quarters available for 2014, at current and constant prices.

The road map for QGDP estimation and dissemination was discussed with the management and the staff of National Accounts Department (NAD). Due to the fact that the estimation of balance of payments (BoPs) is now based on the Balance of Payment and International Investments Position Manual, sixth edition (BPM6) a revision of entire time series 2010-2014 of annual and quarterly national accounts should be realised until June 2015. KAS will reduce the gap of quarterly GDP dissemination; the first quarter 2016 will be available at 80-90 days after the end of the reference period. It was recommended to develop a revision strategy of QGDP and to inform the users.

1. General comments

This mission report was prepared within the Twinning Project „Support to Statistics”. The objectives of the mission were to support KAS for the estimation of QGDP for the second quarter 2014 and elaborate a road map for production cycle for Quarterly GDP by production and expenditure approaches, at current and constant prices. Additionally to the proposed objectives, the first estimates of QGDP for the third quarter 2014 were realized during the mission.

This views and observations stated in this report are those of the consultant 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

2.1 QGDP of the second quarter 2014

The QGDP estimation for the second quarter 2014 followed the methodology applied for the first quarter and used the same data sources.

In the agriculture sector is a huge lack of data sources on quarterly basis. KAS provides only monthly agriculture prices (for output and inputs) for crop and animal production. From Ministry of Agriculture it was obtain information concerning the surface planted in spring and in autumn. The output was estimated having the assumption that the volume of the crop output is in correlation with the surface planted. Veterinary Agency provided information concerning the number of animals in 2013 and 2014; the quarterly output was estimated based on the assumption that the annual growth rate of number of animal is the same for all quarters.

The output of non-financial units which cover mining, manufacturing and market services was estimated based mainly on turnover data provided by Tax Authority. It should be noted that the data base from Tax Authority is managed by only one person, who belongs to the economic department; so, in order to use these data for national accounts or to analyse them, a

special requests should be addressed and the procedure to obtain data take time. The analysis of the data in the first quarters 2013 and 2014 put in evidence inconsistencies of them. As for example, the turnover of units classified in food and beverage production in the second and third quarters 2014 is almost half in rapport with corresponding quarters of 2013; the value of turnover in trade activity decreased in the third quarter 2014 with 180 million euros in comparison with third quarter 2013. Due to this situation, the expert advised to analyse the first 10 big companies from each NACE code, but the data provided did not allow the phenomena understanding. Finally, the output was estimated for some industries, based on the growth rate of the turnover and corresponding PPI or CPI and for other industries using the turnover index provided by Economic Department of KAS. The intermediate consumption was estimated using the same ratio of I/O as the corresponding quarters of the previous year.

The construction output was estimated following the annual estimation methodology, based on the input method. Financial activity in quarterly basis is directly estimated based on monthly data provided by Central Bank following the same methodology as in annual calculations. The constant values were estimated using the corresponding CPI. FISIM was calculated following the annual methodology and was allocated to the users. The output of government services was estimated based on cost approach, using the detail information from Ministry of Finance. The analysis of data put in evidence a different evolution of wages in quarters; in the entire time series, the value of wages in the fourth quarter is almost double than the first quarter and with 40 % bigger than the second and third quarters. Due to the lack of explanations from Ministry of Finance, the data have been included, without any adjustment, in the estimates. Quarterly consumption of fixed capital (CFC) was estimated based on the growth rate of gross fixed capital formation (GFCF) of government and corresponding PPI.

The quarterly output of NPISHs was estimated using the same methodology as in the first quarter 2014, based on corresponding CPI and considering the real growth rate at the same level as previous year.

The estimation of taxes and subsidies on products follows the annual methodology. The analysis of data put in evidence a very big value of subsidies for the second quarter 2014; due to the fact that it was available any detail information concerning the destination of these subsidies and so, the possibility to classify them into subsidies on product or production, in the estimates of GDP for the second quarter only subsidies for agriculture were included.

Households Final Consumption (HFC) was estimated based on the commodity flow approach. The calculations were made for the following big categories of consumption: Consumptions of goods from trade activity; Consumption of agriculture goods from own account production; Hotel and restaurant; Transport; Financial services (including FISIM and insurance) and other services (health, education and other services for population). The HFCE in constant prices was estimated by deflation, using the corresponding CPI.

The estimation of quarterly GFCF followed the annual methodology and is based on imported data (more details explanations are included in the reports of the missions carried out in June and August 2014).

A revision of quarterly data on import and export of goods and services was realized, due to the fact that Central Bank of Kosovo moved to the new methodology, based on the Balance of Payment and International Investments Position Manual, sixth edition (BPM6).

The unbalancing between the two approaches was not big, less than 3%; the adjustments were made especially for the expenditure approach, in the HFC and changes in inventories.

During the mission, it was discussed the content of the press –release for QGDP- second quarter. Based on the experience from other countries, it was recommended to present the components of GDP by production and expenditure approaches at current prices of the year 2013 and in current and constant prices for the two quarters available of 2014.

2.2 Road map

The estimation of QGDP in Kosovo started in the frame of IPA 2011 project (carried out in the period September 2012-March 2014); the first publication of time series 2010-first quarter 2014 of QGDP, by production and expenditure approaches, at current and constant prices was disseminated in December 2014 with the technical support of the twinning project.

This year, KAS has as objective to disseminate the quarters II, III and IV of 2014 and the first two quarters of 2015 (quarter I in August and quarter II in November 2015). As the implementation of quarterly GDP is a difficult task, it was normal to have a gap between the publication of data and the reference period. For the first two quarters 2015, the delay is almost 5 months, in the conditions when the European regulations on national accounts request to disseminate quarterly data within 2 months after the end of the period.

An analysis of the availability of administrative and statistical data sources was realised. The main source used for the QGDP by production is provided by Tax Authority and represents the turnover of enterprises for VAT. Based on the Memorandum of Understanding signed by KAS and Tax Authority, data are provided 60 days after the end of the reference quarter. In these conditions, it is possible to disseminate QGDP at 90 days after the end of the quarter.

The management and staff of NAD agreed with this proposal and starting with the first quarter 2016 a new dissemination calendar for QGDP will be elaborated.

3. Conclusions and recommendations

Implementation of QGDP in 2014 represents one of the main improvements in the field of national accounts. This year, KAS has as main objective to reduce the timeliness gap of QGDP estimates and to be able, starting with 2016, to publish them after 90 days from the end of the reference period.

The main recommendations for QGDP improvement provided during the mission carried out in December 2014 are still available. The following recommendations are added:

- Analysis of government revenues and expenditure for a correct classification into national accounts concepts, based on ESA 2010 methodological requirements. A special attention should be paid for the classification of taxes and subsidies on products, with impact in the level of GDP.
- Revision of the entire time series of QGDP, due to the implementation of BPM6. The estimation of exports and imports of goods in constant prices should be revised and improved.
- KAS improved the short term statistics (STS); the quarterly turnover indices for mining, manufacturing and electricity are estimated and disseminated. It was recommended to analyse the quality of the estimate in order to improve them.
- QGDP estimates for 2014 are considered as provisional; the annual data (which will be available in November 2015) will be used to benchmark the quarterly estimates. It was recommended to elaborate a strategy for QGDP revision and to inform the users.

Annex 1 ToRs



EU Twinning Project

KS12 IB ST 01

Support to Statistics

Terms of Reference:

Component 2: National Accounts

Activity 2.2.1.2: Continued review of annual accounts by production and expenditure approach (special focus on Quarterly National Accounts)

Scheduling:

Tor –ready date: 26 January 2015

Start / end of activity: 9-20 February 2015

Reporting time: 28 February 2015

Mandatory result of the component:

Mandatory Result	Intervention logic	Benchmarks	Sources of information	Assumptions
2.2.1.1	Review of annual accounts by production and expenditure approach	<ul style="list-style-type: none"> Mission report describing work done and work that needs to be completed before the next activity uploaded on project homepage Annual accounts reviewed 	<ul style="list-style-type: none"> Twinning quarterly reports Mission Reports Updated action plan 	<ul style="list-style-type: none"> Sufficient absorption capacity Low turn-over 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
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Subject / purpose of activity: 2.2.1.2

This mission is a continuation of the mission 2.3.1.2 which took place in December 2014

In December 2014 KAS published, for the first time, quarterly GDP for Kosovo for the period 2010- I quarter 2014. This mission is focusing on continuing the proces of having a production cycle for this statistics and support KAS for the estimation of the second quarter 2014 which is planned to be published at the end February (25 February 2015).

During the mission the expert will further have consultations and discussion with the unit of National Accounts.

The road map for National Accounts found in tabel 2 in the mssion report from activity 2.1.1 (Assessment and update of Action Plan) by Graversen and Ungureanu details a number of required steps in order to acoomplish. The work plan elaborated by KAS last year and approved by the Government foreseen to have the estimation of quarterly GDP by production and expenditure approaches, at current and constant prices in a regular basis and to decrease the lag of data dissemination. .

Expected output of activity 2.2.1.2

Mission report.

Road map for production cycle for Quarterly National Account

Support KAS for the estimation of quarterly GDP by production and expenditure approaches for the second quarter 2014.

On job training on quarterly accounts estimation

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Description of the background for the activity

The 2012 Adapted Global Assessment report (AGA) prepared by Eurostat states the following about National Accounts (p.53-54): 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.

The AGA further states that in principle the improvement and increased coverage of annual and quarterly National Accounts should be a first priority for KAS. The calculation of GDP using the production and the expenditure approaches is of particular importance here.

The expected activities are:

- Support KAS for the estimation of quarterly GDP by production and expenditure approaches for the second quarter 2014Discussions on production cycle for QNA

Expected output:

- Mission report – according to template
- Recommendations for further activities to ensure achievement of the goal of estimation quarterly GDP by production and expenditure approaches

Annex 2. Programme, 8-20 February 2014

Day	Place	Time	Event
1	KAS	09.00	Planning the week
		09:30	Activities since last mission
		10:30	Coffee break
		11:00	Collection and analysis of data sources for the estimation of QGDP , II quarter 2014 by production approach- ,
		12:00	Lunch break
		13:10	Collection and analysis of data sources for the estimation of QGDP , II quarter 2014 by production approach-continuation
		14:30	Coffee break
		15:00	Collection and analysis of data sources for the estimation of QGDP , II quarter 2014 by production approach-continuation
		16:30	Preliminary conclusions
2	KAS	09:00-12.00	Collection an analysis of data sources for the estimation of QGDP , II quarter 2014 by expenditure approach-
		12.00-13.00	Lunch break
		13.00-17.00	Collection and analysis of data sources for the estimation of QGDP , II quarter 2014 by expenditure approach-continuation
3	KAS	09:00-12.00	Collection and analysis of price indices necessary for the estimation of QGDP at constant prices
		12.00-13.00	Lunch break
		13.00-17.00	Collection and analysis of price indices necessary for the estimation of QGDP at constant prices - continuation
4	KAS	09:00-12.00	Estimation of QGDP, II quarter 2015, by production approach at current and constant prices
		12.00-13.00	Lunch break
		13.00-17.00	Estimation of QGDP, II quarter 2015, by production approach at current and constant prices continuation
5	KAS	09:00	Estimation of QGDP, II quarter 2015, by production

			approach at current and constant prices continuation
		10:30	Coffee break
		10:00	Estimation of QGDP, II quarter 2015, by production approach at current and constant prices continuation
		12:00	Lunch break
		13:15-17.00	Estimation of QGDP, II quarter 2015, by production approach at current and constant prices continuation
6	KAS	09.00	Planning the week
		10:30	Coffee break
		11:00	Estimation of QGDP by expenditure approach for the II quarter 2014, at current and constant prices
		12:00	Lunch break
		13:10	Estimation of QGDP by expenditure approach for the II quarter 2014, at current and constant prices
		14:30	Coffee break
		15:00	Estimation of QGDP by expenditure approach for the II quarter 2014, at current and constant prices
		16:30	Preliminary conclusions
7	KAS	09:00-12.00	Estimation of QGDP by expenditure approach for the II quarter 2014, at current and constant prices
		12.00-13.00	Lunch break
		13.00-17.00	Estimation of QGDP by expenditure approach for the II quarter 2014, at current and constant prices
8	KAS	09:00-12.00	Balancing QGDP by production and expenditure approaches
		12.00-13.00	Lunch break
		13.00-17.00	Balancing QGDP by production and expenditure approaches- continuation
9	KAS	09:00-12.00	Balancing QGDP by production and expenditure approaches- continuation
		12.00-13.00	Lunch break
		13.00-17.00	Analysis the final estimates of QGDP, II quarter 2014
10	KAS	09:00	Drafting the publication of QGDP
		10:30	Coffee break

		10:00	Drafting the publication of QGDP- continuation
		12:00	Lunch break
		13:15-17.00	Debriefing: Experts, Component Leader and RTA