TWINNING CONTRACT

JO/13/ENP/ST/23

Strengthening the capabilities of the Department of Statistics in Jordan

MISSION REPORT

on

Activity: 1.6 Supply and Use Tables IV

Mission carried out by
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List of Abbreviations

DoS	Department of Statistics of Jordan
ToR	Terms of Reference
SUT	Supply and Use matrices
VAT	Value added tax (the general sales tax)
NA-products	National accounts products (the product classification used in the SUT)
FOB	Free on board
CIF	Cost, insurance, freight

1. General comments

This mission report was prepared within the Twinning Project ”Strengthening the capabilities of the Department of Statistics in Jordan”. It was the fourth mission to be devoted to national accounts within Component 1 of the project.

The main purposes of the mission were:

- To continue familiarization of the DoS staff with the IT-tool for SUT
- To discuss compilation strategies for balancing supply and use
- To begin manual balancing by eliminate some of the product imbalances
- To make plans for further work and agree upon work to be done before next mission scheduled November 2014.

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

The views and observations stated in this report are those of the consultants and do not necessarily correspond to the views of EU, DoS or Statistics Denmark.

2. Assessment and results

Due to flight delay, this mission was one day shorter than scheduled. Together with difficulties in providing data for General sales tax, Special sales tax and Custom duties, this meant that it was not possible to fully meet the Terms of Reference for the mission. On one hand staff members and consultants had to use some time doing the remaining calculations and on the other hand there was less time available. In the end it was not possible to do as much balancing as wanted.

At the end of the third mission a list of outstanding issues was agreed upon. According to this list, by September the 14th the DoS-staff should deliver data with SUT-codes for the remaining part of the SUT-table of which they had responsibility. Amongst this should be NA-product coded data for separate items of sales taxes and custom duties.

At the beginning of the fourth mission, status of the project was that the experts had received the remaining data for supply and use by industries and made sure that it was coded in a uniform way by the products codes defined for the SUT environment. The data on taxes on products was, however, still not available in a form that could be entered into this framework. Now, because product taxes are part of the “bridge column” that is necessary to transform supply from basic to purchasers’ prices, further work was needed before the bridge column could be finished and a meaningful manual balancing could begin.

The distribution of custom duties by products was still missing because the worksheet that contained this information for imported goods did not distinguish between custom duties, special and general sales taxes. As the distribution by uses is very different for the different types of taxes, it is necessary to separate them from each other. Custom duties and special taxes belong to the “Tax”-layer of the SUT-framework while general sales tax belongs to the “VAT” layer.

The General sales tax is a value added tax. It is shown at the uses side of the SUT as the non-deductible tax paid on inputs, GFCF and other uses. In the SUT-framework the distribution is calculated by a model that takes into account:

- average tax rates collected for each NA-product
- exceptions where VAT cannot be deducted for specific products whether purchased by VAT-collecting units or other units
- the share of each industry that is paying VAT on purchases:
  - VAT-exempt units cannot deduct ingoing VAT
  - Units with output below the threshold for registration as VAT collectors cannot deduct ingoing VAT
  - Units in certain industries have exempt or zero-rated inputs. Here VAT on inputs is zero even when output is VAT-exempt.
- any other known exception from the general rules for calculation of non-deductible VAT.

In the SUT-environment the resulting VAT-rates for each cell is shown on the uses side as a "VAT-rate matrix" that is used by formulas that calculates the values in the VAT-layer of the system.

Before this mission, attempts had been made to describe the rates and shares that are needed to calculate the distribution of general sales tax. Based on the tax-legislation and two "US-aid"-papers on the Jordanian tax system the Danish experts had drawn up a sheet with proposed tax-rates for all products. Based on the published figures from the industrial survey for 2006, the Danish experts had also made a tentative estimate of the share of each industry that would have an output value below the thresholds for registration as collector of sales tax.

Members of the DoS staff had made an effort to calculate the value of general sales tax on imports for each imported product as an attempt to separate this tax from the known values for taxes on imports (including customs duties). This work was done on a detailed 5-digit CPC-level and was not quite finished at the start of the mission. After a number of problems had been solved, the results could be aggregated to NA-products and used to validate the above mentioned assumptions on average VAT-rates used in the model for calculation of the distribution of VAT in the use matrix.

In Jordan, calculation of customs duties and VAT is complicated by the existence of numerous free economic zones that are allowed to import goods and services untaxed as long as these products (or the product produced from them) are not released for free circulation in the Jordanian economy.

When the known values of total taxes on imports were compared to the "theoretical VAT" that could be calculated by the above mentioned model on the same imports, the residual value turned up to be negative for many products. As custom duties or special taxes cannot in general be assumed to be negative, the explanation is probably that these products are imported into the free economic zones. Hence, custom duties and special taxes could not be determined alone by subtraction of the "theoretical" VAT from the value of total import taxes for all products. Where the residual was negative the distribution had to be based on assumptions.

A worksheet was drawn up in which the split of import taxes between VAT and other taxes seemed realistic for each product. The assumptions were here adjusted to make sure that the total of customs duties is equal to the revenue shown in government finances. It is obvious that a better solution would be to have information on the actual customs duties for each product, but until such information is available the uncertain estimates from the worksheet will have to be used to fill the bridge column's "Tax"-layer.

A limited number of products are subsidised. The known subsidies had been distributed by NA-products in DoS before the mission. It was, however, discussed whether all of these subsidies vary with the values or volumes of sales of these products. If this should not be the case, the respective subsidies should instead be treated as "other subsidies on production", that are not distributed by products in the SUT-framework. Otherwise the subsidies shall be entered as negative taxes together with taxes on products in the "Tax"-layer of the SUT.

Before the mission wholesale and retail trade margins had been separated from each other and average percentages for these margins had been established for those products that can have trade margins. These percentages are used by the formulas that calculate the values in the "wholesale" and "retail" – layers in the uses side of the SUT-framework.

Transport margins, i.e. transport cost, that are neither shown as direct purchased by buyers nor as purchased by sellers of the transported products. Because transport is then included in the value of goods purchased by the buyers the value need to be distributed as margins. As these margins are usually a limited share of the total value of freight transport, it had been decided to distribute them together with wholesale margins.

An attempt was made to determine the magnitude of such transport margins, but it seemed difficult to reach a sensible solution with the existing estimates for supply and use of freight transport. A considerable share of transport is shown as imported, but it seems that the import value taken from the balance of payments includes transport that is actually used in the conversion of imports from FOB to CIF. The supply of transport that is available for domestic use seems significantly smaller than the estimated uses of directly purchased transport, as found in the industry surveys. The value of transport margins should at least be positive. This leads to the conclusion that either import and/or production of transport services is underestimated or the direct purchases of such services are overestimated or – alternatively – includes other services than freight transport.

Status - concerning data still missing - at the end of the fourth mission is as follows:

Bridge column:	Missing:
Custom duties and Special taxes	Data is not received – but estimated. We still don't have information about the amount received by the Government
Transport margins	An obvious inconsistency between data from different sources for freight transport shows a need for further inquiry.
Informal activity:	While informal activity is more or less covered by the calculated values for some industries, some is still assumed to be missing. Output, input, GFCF and final consumption will probably need to be supplemented when new estimates become available from an ongoing project that has participation from experts from ISTAT.

Despite the shortcomings the SUT that has been populated with available data can now be considered as sufficient for the purpose of initial manual balancing of supply and use.

Having finalized an initial SUT, the last day of the mission was devoted to discussions of a compilation strategy and discussions of how the balancing work should be organised. A division of balancers' responsibilities concerning targets for production, intermediate consumption and other aggregates as well as a division of balancers' responsibilities concerning NA-products – all according to the descriptions and recommendations in the note "Balancing the SUT", see Annex 4 – was discussed. Furthermore job training by the desks of the elimination of product imbalances was carried out and discussed in plenary.

3. Conclusions and recommendations

After the fourth mission on Supply and Use tables we have reached a milestone in the project with the fulfilment of an initial SUT ready for manual balancing. This means that all available data has been utilized, NA-product coded and saved in the SUT. This is slightly behind schedule, but nevertheless the experts believe that the primary goal: to establish a new supply and use table for 2010 is achievable within this year.

But off course everybody engaged in the project still have to be prepared to devote a lot of time and enthusiasm in the work, if we are going to succeed.

In accordance with the abovementioned status at the end of the fourth mission and the objective of manually balancing as much as possible next mission, we agreed that the DoS-staff should prepare themselves before next mission by:

1. Study the note "Balancing the SUT" or "والاســـتخدام العـرض جداول تـوازن"

2. Set-up an extra PC for balancing purposes with folders and the IT-SUT tool installed. If possible the PC should be connected to the DoS-network. The "balancers" could then have read- access to the common, current, updated version of the SUT and write-access to an area where their own worksheets containing corrections can be stored.

3. Appoint one person as the "main-balancer" and set-up the balancing teams with 2 persons in each team.

4. Do exercises with the EXCEL SUT IT-tool.
    - Try to retrieve products (rows)
    - Try to retrieve production or intermediate consumption or other parts of the use table (columns)
    - Try to figure out what the figures show
        - Why don't the products balance?
        - Look specifically at products with strange values (e.g. uses outside inventory changes) or large differences between initial values for supply and use and try to find explanations (e.g. missing supplies or uses, erroneous coding of supply or use components, improbable distribution of taxes on products, errors in source data)

5. Study the balancers' responsibilities for the balancing of industries and other targets and products.

6. Begin by looking at one or two of the eleven "balancing groups".

7. When you visit ISTAT and study the Informal economy, try to bear in mind that in the end the figures shall be used in the SUT framework.

8. If possible, find better information on customs duties and special taxes distributed by products that can replace the present – very uncertain – estimated values.

9. Try to find descriptions of each subsidy. Check whether it is correct to distribute each subsidy by products.

10. Look further into the supply of transport services. Try to find the source data from primary statistics.

Annex 1. Terms of Reference

Terms of Reference

EU Twinning Project JO/13/ENP/ST/23

28 September -2 October 2014

Component 1: National Accounts

Activity 1.6: Supply and Use Tables IV

0. Mandatory results and benchmarks for the component

- The national accounts system in Jordan updated to SNA 2008 (Apr 2015)
- The national accounts system in Jordan will cover the informal sector (Apr 2015)
- Assessment report on current situation (Jan 2014)
- Review of the GDP methodology (Apr 2014)
- Plan for how to change base year in the fixed price calculations (Jan 2015)
- Plan for how to improve the current accounts (Jan 2015)
- Present and discuss the concept of different types of agricultural accounts (Jan 2015)
- Data sources, compilation methods, and balancing in relation to supply and use tables reviewed and updated towards SNA08 principles (Apr 2015)
- Provide recommendations on how to update input-output tables (Apr 2015)
- Update the methodology for calculation the informal sector (Apr 2015)

1. Purpose of the activity

- Continued familiarization of the DoS staff with the IT-tool for SUT
- To discuss compilation strategies for balancing supply and use
- Elimination of product imbalances
- Balancing in the direction of the Target totals
- Special focus on changes needed in the current system in order to comply with the ESA10/SNA08
- To introduce the DoS staff to requirements regarding supply and use tables in the ESA 2010 / SNA2008

2. Expected output of the activity

- DoS staff further familiarised with the IT-tool for SUT
- SUT totally populated with data
- Recommendations prepared on the next steps in relation to how to deal with the imbalances
- A lining up of work programme for the next activity (1.7, scheduled for 2. November – 2. November 2014)
- DoS staff introduced to the Danish and in geneal European experiences in compiling Supply and Use tables

Participants

DoS
Mr Moawiah Alzghoul Director of National Accounts Directorate, and component leader

Annual national accounts
Amal Abu Afeefeh - Head of the Annual Accounts Division
Khairallah Almarzoug
Farhan Mohammad
Loay Alrawashdeh
Ali Zaitoun
Ayman Nasir

Input-output division
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Murad Omari
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Quarterly accounts division
Walid Battah - Head of the Quarterly Accounts Division
Jaber Alfazza
Walaa Gharram

MS experts
Mr. Jens Holst Jensen, Senior Adviser, National Accounts division, Statistics Denmark
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Annex 2. Programme for the mission

Time		Place	Event	Purpose / detail
Sunday, morning	08.30 – 10.00	Hotel /DoS	Meeting with RTA	To discuss the programme of the week
Sunday, morning	10.00 – 12.00	DoS	Meeting with BC Component Leader and BC Experts	Information and follow-up on activities since activity 1.5. Which part of the SUT is now completed? What is the status regarding the data still missing after the previous mission? Presentation of the SUT-tool and how it works. Discussion of challenges faced, if any, when using the SUT-IT tool. Can everyone format, test and save data in the SUT? Can everyone extract data from the SUT. Correct data and save again?
	12.00 – 01.00		Break / Preparations / Report writing	Break / Preparations / Report writing
Sunday, afternoon	01.00 – 03.30	DoS	Meeting with BC Component Leader and BC Experts	Review of the populated SUT. Column by column. Review of data for each industry and the calculations behind them. - Output - Intermediate consumption - Value added - Procedures for enumeration - Correction for informal sector?
	03.30 – 04.00		Preparations / Report writing	Preparations / Report writing
Monday, morning	08.30 – 09.00	DoS	Preparations / Report writing	Preparations / Report writing
	09.00 – 12.00		Meeting with BC Component Leader and BC Experts	Discussions of how to organize the balancing of the SUT.
	12.00 – 01.00		Break / Preparations / Report writing	Break / Preparations / Report writing
Monday, afternoon	01.00 – 03.30	DoS	Meeting with BC Component Leader	Work on balancing the SUT.

			and BC Experts	
	03.30 – 04.00		Preparations / Report writing	Preparations / Report writing
Tuesday, morning	08.30 – 09.00	DoS	Preparations / Report writing	Preparations / Report writing
	09.00 – 12.00		Meeting with BC Component Leader and BC Experts	Continued from Monday afternoon.
	12.00 – 01.00		Break / Preparations / Report writing	Break / Preparations / Report writing
Tuesday, afternoon	01.00 – 03.30	DoS	Meeting with BC Component Leader and BC Experts	Continued from Tuesday morning.
	03.30 – 04.00		Preparations / Report writing	Preparations / Report writing
Wednesday, morning	08.30 – 09.00	DoS	Preparations / Report writing	Preparations / Report writing
	09.00 – 12.00		Meeting with BC Component Leader and BC Experts	Continued from Tuesday afternoon.
	12.00 – 01.00		Break / Preparations / Report writing	Break / Preparations / Report writing
Wednesday, afternoon	01.00 – 03.30	DoS	Meeting with BC Component Leader and BC Experts	Continued from Tuesday afternoon.
	03.30 – 04.00		Preparations / Report writing	Preparations / Report writing
Thursday, morning	08.30 – 09.00	DoS	Preparations / Report writing	Preparations / Report writing
	09.00 – 11.30		Meeting with BC Component Leader and BC Experts	Discussions of open issues. Discussions of work programme until next mission (2-6 November 2014)
			Ad-hoc meetings	Final clarifications with BC Experts, preparation of report and presentation for BC Project Leader
Thursday, morning	11.30 – 12.30	DoS	Meeting with BC Component Leader	Presentation for BC Project Leader
Thursday, noon	12.30 – 01.00	DoS	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

DoS:
Mr Moawiah Alzghoul Director of National Accounts Directorate, and component leader

Annual national accounts
Amal Abu Afeefeh - Head of the Annual Accounts Division
Khairallah Almarzoug
Farhan Mohammad
Loay Alrawashdeh
Ali Zaitoun
Ayman Nasir

Input-output division
Murad Bani-Hamad
Murad Omari
Aysha Hashim Abu-Shaira
Quarterly accounts division
Walid Battah - Head of the Quarterly Accounts Division
Jaber Alfazza
Walaa Gharram

RTA team
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RTA Assistant, Christine Salman
Interpreter, Mohammad Junaidi