

TWINNING CONTRACT

Support to the Statistics

Kosovo



MISSION REPORT

on

**2.2.1.1 Continued review of annual accounts by production and
expenditure approach**

Component no 2 National Accounts

Mission carried out by
Clementina Ivan-Ungureanu, Statistics Denmark

1-5 September 2014

*IPA 2012**Clementina Ivan-Ungureanu**Statistics Denmark**Sejrøgade 11**DK-2100 Copenhagen Ø**Denmark**Tel: +**Email: clementina@ivan-ungureanu.ro*

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List of Abbreviations

ANA	Annual National Accounts
BoPs	Balance of Payments
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
GFCE	Government Final Consumption Expenditure
HFCE	Households Final Consumption Expenditure
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
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 present mission carried out in the period 1-5 September 2014 under the component 2 – *National accounts* of the twinning project had as main objectives to analyse the implementation of ESA 2010 in annual national accounts of Kosovo for the period 2008-2012 and to support KAS for the estimation of GDP by expenditure approach for 2013.

The NAD of KAS was involved in IPA 2011 multi-beneficiary project (April 2013-June 2014) and received the technical support from IMF in the period June 2012-July 2014. In the frame of IPA 2011 project, KAS had two main objectives: implementation of ESA 2010 and start of quarterly national accounts implementation; IMF technical assistance provided support for the improvement of annual national accounts by production and expenditure approaches, in current and constant prices.

The activity for implementation of ESA 2010 was focussed on the estimation of research and development (R&D) and weapon system; based on technical support of IMF, the ESA 2010 requirements for the estimation of non-life insurance, FISIM and output of central bank have been implemented.

Along the implementation of ESA 2010, a revision of annual data started in the frame of IMF project, for the period 2008-2012 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 and (v) estimation in constant prices of government output and taxes on products. The method of HFCs calculation was totally changed, moving from an estimation based on Household Budget Survey (HBS) to a commodity flow approach.

The first revised data for 2008-2012 were available at the beginning of the mission. The data are not finalised, GDP by production and expenditure approaches, in current and constant prices are not consistent. During the mission, analysis of GDP estimation by expenditure approach was carried out and recommendations for improvement provided. The estimates for 2013 started and the first estimates of gross fixed capital formation (GFCF), government final consumption expenditure (GFCE) and import and export of goods and services in current and constant prices were available at the end of the mission; the estimates of household final consumption expenditure (HFCE) were quite advanced, but not finalised. The activity will be finalised in the next week, because it is planned to disseminate GDP 2013 on 12 September 2014.

The entire revision process and implementation of ESA 2010 was a difficult task and the analysis of data put in evidence several inconsistencies. The improvements made during the mission for the years 2012 and 2013 for expenditure approach of GDP should be applied for the previous years, in order to ensure the time series consistency. The GDP by production approach should be analysed and revised in order to be coherent with expenditure side, in

current and constant prices. This revision should be finished before the end of November, when GDP 2013 by production approach will be published.

1. General comments

This mission report was prepared within the Twinning Project „Support to Statistics”.

The concrete objectives of the mission were:

- Review of annual accounts by production and expenditure approaches for the period 2008-2012 based on ESA 2010
- Support for the estimation of GDP by expenditure approach based on ESA 2010 for the year 2013

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 Review of annual accounts by production and expenditure approach

The first revised estimates of annual GDP by production and expenditure approaches in line with ESA 2010 methodology have been analysed during the mission.

a. GDP by production approach

The estimation of GDP by production approach started in the frame of IPA 2010, carried out in the period April 2011-September 2012; GDP in current and constant prices have been elaborated for the period 2008-2011. For the calculation of GDP for 2012, KAS had the technical support of IMF. Last year, IMF proposed new methods to estimate the output (O) and the intermediate consumption (IC) based on data from Structural Business Survey (SBS) and supported KAS to realise the revision of 2008-2012 data.

The current estimations of output of non-financial units have two main problems; one is related on the quality of SBS which is the only data source used for the calculations, and the second is the fact that non-observed economy (NOE) is not taken into account. During the previous missions carried out in the frame of IPA project, data from SBS were analysed and many problems occurred, starting from the internal consistency of the questionnaires received to the classification of units by activity and correlation with Tax Authority data. The use of these data for the estimation of output has a big impact on the quality of the results.

The analysis of intermediate consumption put in evidence inconsistencies in time series. The share of IC in output for some industries is very different from one year to another; for other industries, the share is the same for all five years. The growth rates of IC for several industries presented strange values, without any economic explanations.

These aspects have been discussed with NAD staff and it was recommended to revised the calculations in order to make them consistent over the period.

b. GDP by expenditure approach

The revised estimations of GDP by production approach were analysed and improvements proposed.

The Household Final Consumption Expenditure (HFCE) for the period 2008-2012 was revised and the new estimates are based on the commodity flow approach. In this respect, the weak points which exist in the output estimation have impact in the HFCE results. The second problem is the fact that the correlation between supply and uses, requested by this method, is not respected. The household consumption is estimated as difference between total output of the economy, plus import for household consumption minus total intermediate consumption of the economy and minus export. To these values, the trade margins and VAT of total economy are added. So, in the calculations the uses of the output for gross fixed capital formation, inventories, final consumption of government and of non-profit institutions serving households (NPISHs) are not taken into account.

The revised figures for the gross fixed capital formation (GFCF) available at the beginning of the mission did not take into account the improvements recommended during the last mission (see mission report June 2014). New calculations have been realised and the time series of GFCF was improved.

A big revision was made in the calculation of the consumption of fix capital (CFC) of government assets, initiated by IMF. A PIM method was putted in place. The excel files were available without any methodological explanations. The analyses of these files put in evidence some aspects concerning the prices used. The expert sent the files for analysis to Mr. Timmi Graversen. He agreed in general with the calculations proposed, and considered that in future further improvements are necessary, especially for the estimation of the capital stock and prices used.

2.2 Estimation of GDP 2013 by expenditure approach

The estimation of GDP 2013 by expenditure side started during the mission. The expert provided support for the estimation of HFCE, GFCF in current and constant prices and estimation of import and export of goods and services in constant prices.

The main improvements made in the estimation of GFCF are based on the recommendations provided during the mission carried out in June 2014 and referred to:

- Estimation of the ordinary maintenance and repairs in construction in order to eliminate them from GFCF

- Estimation of the intermediate consumption in construction , based on the results of the survey carried out for the implementation of the construction cost index
- Estimation of major repairs for equipment and machinery as part of GFCF
- Including the research and development in GFCF, as is requested by ESA 2010.

The estimation of export and import of good and services in constant prices, for the period 2008-2013 was improved. The import of goods in constant prices was estimated based on data from custom (where, import is valued based on CIF (cost-insurance-freight) prices), but in GDP calculation it is valued at FOB (free on board). The new estimates have been based on IMPI and FOB import data. The import of services was estimated based on the average CPI from Germany, Albania and Macedonia (the main commercial partners). The indices were applied to each type of imported services. The exports of services were deflated based on domestic corresponding CPI.

For the HFCE, the method and the calculations included in the files established with the IMF adviser have not been changed; the expert worked for the estimation of output 2013, by NACE rev.1, at 2 digits level following the same methodology. In order to apply it, an estimation of the output and intermediate consumption for 2013 was made. Data from Tax Authority concerning the turnover and available prices (PPI and CPI) have been used for output estimates. The intermediate consumption was estimated based on the share of IC/O from 2012 data.

The imputed rent for 2013 was estimated based on value of 2011 (as benchmark, based on dwelling data provided by Population Census) and the corresponding CPI, having the assumption that the growth rate follows the construction rate. At the end of the mission the first results were available; the calculations will continue next week in order to be published on 12 September.

3. Conclusions and recommendations

During the mission, detailed recommendations concerning the estimation of annual GDP by expenditure approach and on job training in this field were provided.

The entire revision of GDP by production and expenditure approaches, in current and constant prices for the period 2008-2012 was a very difficult task taking into account the short time of its realization and the human resources of the NAD. The plan established during the last mission was not achieved and the expert had the possibility to see the new estimates only at the beginning of the current mission. As the main task was to estimate GDP 2013 by expenditure approach, the expert focussed the activity during the mission, mainly on this topic.

The main recommendations provided during the last mission (June 2014) have been implemented for the estimation of GDP 2013 by expenditure approach; it is necessary to implement these recommendations for the entire period 2008-2012, in order to ensure the consistency of the time series.

The next objective of KAS is the estimation of GDP 2013 by production approach and its dissemination at the end of November 2014. It is recommended to analyse deeply the new estimates for the series 2008-2012 and to improve them based on the weak points identified and discussed with NAD staff during the mission. This revision is necessary to be finalised as soon as possible in order to use the results for the estimation of quarterly GDP for the period 2010-2013.

Annex 1. Terms of Reference**EU Twinning Project****KS12 IB ST 01****Support to Statistics****Terms of Reference:****Component 2: National Accounts****Activity 2.2.1.1: Continued review of annual accounts by production and expenditure approach****Scheduling:****Tor –ready date: 10 July 2014****Start / end of activity: 1–5 September 2014****Reporting time: 12 September 2014****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: 2.2.1.1

This mission is a continuation of the mission 2.2.1.

Further consultations and discussion with unit of National Accounts.

The road map for National Accounts found in table 2 in the mission 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 accomplish. The work plan elaborated by KAS last year and approved by the Government foreseen to have the estimation of annual GDP by expenditure approach available in September and by production approach in November 2013. The gap in the time is still in practice. One of the objectives of the twinning project will be to estimate and publish GDP by production and expenditure approaches, at the same time, in a balance form; this could be realised in 2015.

Expected output of activity 2.2.1.1

Mission report.

Analysis of ESA 2010 changes and their implementation in national accounts of Kosovo

Revision of annual national accounts based on ESA 2010

On job training on annual annual accounts estimation

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

Florijs Krapic, senior officer of National Accounts, Florijs.Krapic@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

Twinning resources:

Mr Per Knudsen, RTA, pkn@dst.dk

Ms Nora Zogaj, RTA assistant, nzogaj@yahoo.com

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 National Accounts should be a first priority for KAS. The calculation of GDP using the production and the expenditure approach is of particular importance here.

The expected activities are:

- Review of annual accounts by production and expenditure approaches for the period 2008-2012 based on ESA 2010
- Support for the estimation of GDP by expenditure approach based on ESA 2010 for the year 2013

Expected output:

- Mission report – according to template
- Recommendations for further activities to ensure achievement of the goal of reviewing annual accounts by production and expenditure approach

Annex 1. Programme, 1-5 - September 2014

Day	Place	Time	Event
1	KAS	09.00	Planning the week
		09:30	Activities since last mission in June
		10:30	Coffee break
		11:00	Analysis of ESA 2010 implementation in national accounts for the period 2008-2010 –.

		12:00	Lunch break
		13:10	Analysis of ESA 2010 implementation in national accounts for the period 2008-2010 – continuation
		14:30	Coffee break
		15:00	Analysis of ESA 2010 implementation in national accounts for the period 2008-2010 – continuation
		16:30	Preliminary conclusions
2	KAS	09:00-12.00	Analysis of data sources for GDP estimation by expenditure approach for 2013
		12.00-13.00	Lunch break
		13.00-17.00	Compilation of GDP by expenditure approach for 2013-current prices Consultation and on the job training
3	KAS	09:00-12.00	Compilation of GDP by expenditure approach for 2013-current prices – continuation
		12.00-13.00	Lunch break
		13.00-17.00	Compilation of GDP by expenditure approach for 2013-current prices – continuation
4	KAS	09:00-12.00	Compilation of GDP by expenditure approach for 2013-constant prices Consultation and on the job training .
		12.00-13.00	Lunch break
		13.00-17.00	Compilation of GDP by expenditure approach for 2013-constant prices Consultation and on the job training
5	KAS	09:00	Discussion concerning the main problems of GDP compilation by expenditure approach
		10:30	Coffee break
		10:00	Recommendations for further activities
		12:00	Lunch break
		13:15-17.00	Debriefing: Expert, KAS Project Leader, 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,
Have Khyeziu, Besim Mehmeti

RTA Team:

Per Knudsen, RTA

Nora Zogaj, RTA Assistant