

Twinning Project

Contract: GE 16 ENI ST 06 18

Strengthening the Capacity of the Georgian Statistical System

Component 2: Enhancing methodological soundness in the National Accounts in line with the EU standards

Sub-component 2.3: Compilation method for Sector Accounts

MISSION REPORT

Activity: 2.3.A “Assessment of current situation”

Mission carried out by
Ms. Ivanna Blagova, Statistics Denmark
Mrs. Kathrine Lindeskov Johansen, Statistics Denmark

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Expert contact information

Ms. Ivanna Blagova
Statistics Denmark
Copenhagen, Denmark
Tel: +45 3917 3309
Email: ibl@dst.dk

Mrs. Kathrine Lindeskov Johansen
Statistics Denmark
Copenhagen, Denmark
Tel: +45 3917 3067
Email: klj@dst.dk

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1. General comments

This mission report was prepared within the EU Twinning Project "Strengthening the Capacity of Georgian Statistical System". This was the first mission within the sub-component 2.3: "Compilation method for Sector Accounts". Due to COVID-19 the mission was carried out as a Remote Session in the period from October, 28th to November, 5th 2020. The mission was mainly devoted to assessment of current situation and compilation of sector accounts for government sector.

The purposes of the mission were:

- To discuss and to assess the current situation and thereby;
 - To get an introduction to the current situation in the field of Sector accounts in Geostat
 - To get an introduction to previous work on sector accounts in Geostat
 - To prepare the work plan/roadmap for the sub-component
 - To compile of accounts for government sector

The consultants would like to express their gratitude to the Geostat staff who participated in the mission, for the kind support and valuable information received during the mission.

The views and observations stated in this report are those of the consultants and do not necessarily correspond to the views of the European Union, Geostat, Statistics Denmark, or other statistical institutions involved in the implementation of the project.

2. Assessment and results

Introduction to the current situation

The mission started by a short introduction to the current sector accounts situation by Geostat. A short overview by Geostat made it clear that a sector accounts framework exists and it is Geostat's wish to construct it with complete data and publish it.

Geostat is also working on a software system with the purpose of comprising all sources and constructing the sector accounts framework.

Introduction to previous work on sector accounts

Introduction to previous work on sector accounts was presented by Geostat in an excel spreadsheet containing the sector accounts framework and aggregated information about data sources and compilation methods. It was supplemented by a more detailed information from GFS compilation.

Among the outstanding issues was mentioned lack of data, lack of clarity about level of sector breakdown needed and corresponding data sources as well as linkages between data sources in the different parts of national accounts. Guidance about balancing procedures are also needed especially with transactions in property income (D.4), where existing horizontal imbalance is also affecting net lending/net borrowing for the domestic sectors as regards to the RoW.

Since the full system of national accounts entails quadruple entry accounting, it is fundamental for sector accounts compilers to understand the various sources and methods available for each side of the entries when reconciling the accounts. The experts were to some extent able to get an insight into the current situation and the previous work done on sector accounts. It is the experts' initial evaluation that the existing framework can be used in the coming work with sector accounts compilation. It is up to Geostat to decide whether further sector breakdown is preferable. If Geostat can compile S.11, S.12, S.13, S.14 and S.15, this will be in compliance with the ESA transmission program. Further breakdown can be considered if sufficient data is

available at subsector level. However, more detailed information about available sources and methods for all sectors apart from S.13 is needed ahead of the next missions.

Changes to the terms of reference

Changes to the terms of reference were made at the start of the mission as regard to the sequence of sectors compilation. Geostat expressed their wishes at the first meeting to follow the process of compilation in Statistics Denmark. It is the experts' assessment, therefore, that it is preferable to start the compilation with the government sector (S.13) instead of with the households sector as initially planned in the ToR. Furthermore, the capital accounts will be compiled for all sectors in one mission.

Sector classification in the Business register

At the first meeting it was brought to the experts' attention that there are outstanding issues with the sector classifications in the Business register in Geostat. As a sector classification of all entities – both residents and from RoW, is a prerequisite for the sector accounts compilation, this issue appears to be essential to overcome.

In Denmark, the Business register sector classification is a product of continuous cooperation between Sector/National Accounts compilers and the Business register compilers. Sector accounts experts can provide guidance to Geostat as regards to interpretation of sector classification in the manuals (SNA 2008 and ESA 2010, where ESA 2010, chapter 2-3 provides more operational guidance). More specific questions or cases are to be addressed by the Business register. It is, though, up to Geostat's National accounts compilers in cooperation with their Business register colleagues to finish the classification by utilizing all already available information and sources. For example, by consulting with colleagues from BoP about the resident/non-resident classification, where full consistency of the entities' classification should exist between National accounts and BoP.

Compilation of government sector accounts

The second and third meetings of this mission were devoted to compilation of the government sector accounts (S.13). The GFS-statistics are usually a very good and sufficient source for S.13 compilation. In Georgia it is the Ministry of Finance that is responsible for the GFS compilation and there exists good data sharing practice with Geostat for the purposes of National accounts.

After a short overview of the available information from GFS it is the experts' strong recommendation that Geostat should increase their cooperation with the Ministry of Finance in order to gather counterpart information for the government sector. The main arguments for that are high quality, high consistency and regular timeliness of GFS as a source data compared to other sources like surveys, for example. These counterpart data are extremely useful when it comes to the compilation of the other sectors' transactions with S.13, where direct information and sources might be missing, less consistent or more difficult to obtain. This is usually the case for *Other taxes and subsidies on production* (i.e. not *Taxes and subsidies on products*, which will be covered in the SUT component), *Wages and salaries*, *Social contributions and benefits* and *Other current transfers*. If the nature of the counterpart can only be one domestic sub-sector and RoW, it is not crucial to get counterpart details from GFS, as the BoP statistics can be taken into account and the residual domestic counterpart can be calculated, however, since coherence between GFS and BoP in the national accounts is one of many focal points, it is the experts' advice to collect the data as a step in Geostat's quality assessment. Moreover, in order to document sound public finances, it is considered imperative that a solid data exchange agreement between the Ministry of Finance and the NSI is established. Not only will it strengthen the documentation of public finances, it will also be much more efficient (and therefore much less costly) for the NSI to base compilation on highly reliable, high quality and consistent data, as opposed to retrieving, estimating and reconciling counterpart information from lesser sources. The cost efficiency not only adheres to the collective efforts of the two public institutions mentioned, it also applies to minimizing the response burden of the counterparts in question (the response burden of the business community, authorities and private persons).

S.13's sector delimitation was also discussed during the second and third meetings, where guidance was provided with regards to general interpretation and intuition about the classification. It is the experts' general recommendation that Geostat performs continuous reviews of the entities classified in the government sector with respect to market/non-market producers. It is the experts' advice in this process to focus on examining the typical cases of market producers. Such cases are usually providers of public utilities and public transportation, military weapons producers and universities. The non-market output of the Central bank of Georgia is distributed to S.13 according to the SNA, which Geostat are free to follow. However, on this subject, ESA commands that the central bank's output is placed as intermediate consumption in S.12. The purpose of this project is to align Georgia's methods to those used in the EU, and if Georgia was a member, compliance with ESA would be mandatory. The output of the Central bank of Georgia should therefore be excluded from intermediate consumption of S.13 and included in S.12, if it is Geostat's intention to follow the ESA2010 manual regarding the sector classification of the Central bank.

Geostat expressed need for guidance about identifying subsidies on products (D.31). This will be covered in the SUT component. It is the experts' general recommendation about subsidies on production (D.39) in S.13 to obtain information about the individual schemes, which can help identifying the counterpart to a subsidy related to production. More specific guidance and examples from the Danish compilation method can be provided during the next mission.

Transactions regarding social contributions and benefits (D.6) were missing from the presented sector accounts framework. This appeared to be by mistake and it was confirmed by Geostat that data is available for D.62 and D.63 and it was provided during the mission.

3. Conclusions and follow up

- Sequence of sectoral accounts according to SNA 2008 is compiled for government sector.
- Counterpart information from GFS data is needed in order to optimally utilize this data source. This information will be very useful in the compilation of the other sectors.
- The experts will send questions on the sources and methods for compiling financial sector accounts, where Geostat's answer is needed before the next mission.

Actions needed for moving forward:

Action	Deadline	Responsible person
Counterpart information from S.13	January, 2021	Geostat
D.6 transactions to be included in the sector accounts framework and an updated version of the excel spreadsheet to be exchanged with the experts	January, 2021	Geostat
Answer questions regarding S.12 by e-mail	January, 2021	Geostat
Business register sector classification finished	April, 2021	Geostat with support of Danish experts.

Annex 1. Terms of Reference

EU Twinning Project GE 16 ENI ST 06 18

28th October – 5th November 2020

Component 2: Enhancing methodological soundness in the National Accounts in line with the EU standards

Sub-component 2.3: Compilation method for Sector Accounts

Mandatory results and benchmarks for sub-component 2.3:

- Compilation method for Sector Accounts improved

Indicators of Achievement (baseline and targets):

- Availability of sector accounts as a statistical product
 - **Baseline:** 2019 – Sector Accounts are not produced by Geostat
 - **Target:** May 2021 – Sector accounts available

Activity 2.3.A (RS) “Assessment of current situation”

1. Purpose of the activity

- Introduction to current situation in the field of Sector accounts
- Introduction to previous work on sector accounts
- Preparation of the work plan/roadmap for the sub-component
- Compilation of accounts for government sector

2. Expected output of the activity

- Overview of previous work on Sector Accounts achieved
- Insight into outstanding issues gained
- Sequence of sector accounts according to SNA 2008 compiled for government sector
- Work plan for the sub-component prepared
- Mission report written
- ToR for next activity prepared



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საქართველოსთვის
The European Union for Georgia



Annex 2. Persons met

Geostat

Mr. Levan Karsaulidze, Head of National Accounts Department

Ms. Tinatin Papiashvili, Head of Quarterly Accounts Division

Ms. Meri Shaburishvili, Senior Specialist at Annual Accounts Division

Ms. Nino Shukakidze, Senior Specialist at Annual Accounts Division

Mr. Irakli Kartvelishvili, Senior Specialist at Quarterly Accounts Division

Ms. Natia Merebashvili, Chief Specialist at Annual Accounts Division

RTA Twinning Team

Mr. Steen Bielefeldt Pedersen, Resident Twinning Advisor

Ms. Nino Grdzlishvili, Resident Twinning Advisor Assistant, Translator