



ევროკავშირი
საქართველოსთვის
The European Union for Georgia



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 EU standards”

Sub-component 2.1: “Compilation methods of National Accounts and new products”

MISSION REPORT

Activity: 2.1.B “Calculations and estimations of different items”

Mission carried out by
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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 third mission within the sub-component 2.1: "Compilation methods of National Accounts and new products" and was mainly devoted to calculations and estimations of different items.

The purposes of the mission were:

- To update and further assess of the current situation
- To have a general discussions regarding the transition to SNA2008.
- To identify specific, remaining issues regarding the SNA2008 implementation plan

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

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

The agenda and ToR were very broad and ambiguous. Due to the area of expertise of the two experts and the fact that another mission is to take place on the 21st of October, it was decided only to focus on FISIM and Insurance making sure that both subjects could be finalized within this mission. Other important subjects such as estimation of output of owner occupied housing and estimation of expenditures on R&D should be discussed bilaterally with the component leader or addressed on the next mission.

As for the current situation Geostat gave a short status. Many of the challenging areas are almost finished, however some important issues like "consumption of fixed capital" still needs to be addressed. Geostat expects to be able to make a preliminary SUT by 15th October and then sent it to the component leader for a review.

FISIM

The main purpose of the mission has been to establish a system for calculation of FISIM on a sectoral level together with FISIM distribution between industries and between final and intermediate consumption. FISIM is a new concept that does not exist in business accounting and the main data-source is information about stocks and interest flow on deposits and loans in commercial banks. This data is typically provided by Central banks.

Status from previous missions has declared that data for the FISIM calculations is available. Furthermore, by the start of this mission Geostat had already been in contact with the Georgian central bank and received initial data for the calculations as well as set up a model for the calculations of FISIM. Some guidance was, however needed on the precise calculations and method.

Due to the large difference between interest rates in domestic and foreign currencies in Georgia the experts advised to make separate calculations for FISIM in domestic and in foreign currencies (the last one as a group including all foreign currencies).

FISIM produced by commercial banks

Upon request the Georgian Central bank has provided data with the necessary level of detail and disaggregation for the stocks of loans and deposits. Data for the stocks from the Central bank is split by sectors, currencies, residents vs. non-residents and industries according to NACE Rev.1. Information about the interest is however

lacking the same degree of details, which means that assumptions about the distribution of interest flows needed to be made based on distributions from the stocks.

A few options have been considered regarding the choice of reference rates. For the calculations of FISIM in domestic and foreign currencies it is needed to find reference rate for both currency groups, respectively. After examining both endogenous and exogenous reference rates, it is considered most valuable to use TIBR (Tbilisi Interbank rate) as an exogenous reference rate in domestic currency. For foreign currencies an endogenous reference rate calculated using the stocks and interest in foreign currencies from the Central bank data has been calculated. Those two reference rates give the least amount of negative values for FISIM, which indicates that they capture best the movements in the interest flow. Negative values still appear but only sporadically. Thus, for practical reasons they are set to zero. Moreover, there is no economic meaning in producing negative FISIM, which is a service charge.

The Central bank provided monthly and quarterly data for the period 2016K1-2019K1, which makes it easiest to calculate FISIM for each quarter and then sum quarters to arrive at annual figures.

Consumption of FISIM produced by commercial banks is calculated for each sector on a quarterly basis in current prices.

FISIM produced by microfinance organisations

Data for stocks and interest on loans given by microfinance organisations is available. Calculations for FISIM produced by those organisations for 2018 showed, however, only negative results. This could be explained by the high amount of non-performing loans on the balances of the microfinance organisations. Calculations are still to be made for all years with available data.

FISIM import/export

Information for calculation of FISIM export is available from the central bank. On the other hand, data for interest and stocks of loans and deposits held by resident non-financial sectors against foreign banks, which is needed for estimating the import, is unavailable. Without information on import including only export would lead to unbalanced results in the national accounts. Therefore, FISIM export and import are not calculated during this mission.

Distribution between intermediate and final consumption

At this point with no FISIM import and no FISIM produced by microfinance organisations it is only FISIM produced by commercial banks that is equal to intermediate plus final domestic consumption. All sectors in the economy use FISIM as intermediate consumption apart from Households. Households use FISIM as intermediate consumption in their capacity as owners of dwellings by taking mortgage loans. They use FISIM as final consumption when they take other consumer loans. Unincorporated enterprises included in the households sector also use FISIM as intermediate consumption. Their classification has been discussed with Geostat and it is the experts' recommendation to classify them consistently in National accounts and in the FISIM calculations.

FISIM consumption by S.14 is distributed between final and intermediate consumption on the basis of information for loans by purpose - stocks of mortgage vs. other loans – provided by the Central bank.

Distribution by industries

FISIM consumption by sectors is distributed to industries based on sector-industry matrices for stocks of deposits and loans included in the Central bank data on NACE Rev. 1 level. Geostat has declared that industry output according to NACE Rev.2 is almost finalised and will be available for use as a distribution key for FISIM according to NACE Rev.2 before the 15th of November.

FISIM in constant prices

Geostat has declared that no guidance is needed from the experts for calculating FISIM in constant prices from the current price figures.

INSURANCE

Geostat presented their new calculations for output of insurance. As the experts to notice, these calculations are based on the recommendation made by IMF. The output now consists of both direct insurance and reinsurance. Geostat uses the incurred claims as recommended by IMF but will investigate the possibility of calculating an estimation of adjusted claims. As the insurance sector is very small in Georgia, it is the expert's opinion that Geostat should consider investigation the possibility of estimating adjusted claims when possible, but not to have this subject as a high priority.

Looking at the calculations output for the second quarter of 2019 gave negative values, as a result of very high claims. Geostat and the experts discussed different opportunities to remove this negative value. As a result of the discussion the experts recommend looking into these very high claims to assess if data are valid. If that is the case Geostat should consider looking into the possibility of a catastrophic event, and the treating this event as defined in the manuals.

A system for distributing the output from insurance to the industries and the households was made. Each type of insurance was assessed and distributed by sector (S.11, S.14 and S.13) based on statistical information provided by LEPL Insurance state supervision service of Georgia. For insurance types, that was used by units in S.11 the used amount had to be split into different industries. A structural key was made based on a new survey on intermediation consumption, in those cases where premium by industry could be found in the data. It is the expert opinion that the new system distributes in a good and efficient way. Should there be a need for changing for instance the structure of some insurance types the system copes with this quite easily.

3. Conclusions and follow up

- Look into the possibility of using adjusted claims in the calculation of insurance
- Classify unincorporated enterprises consistently throughout National accounts including the FISIM calculations
- Explore possible data-sources for FISIM import and calculate FISIM import/export.

Actions needed for moving forward:

Action	Deadline	Responsible person
Geostat should send an update of the current status to the component leader.	11 th October 2019	Mr. Levan Karsaulidze
2019Q2 insurance claims should be analyzed if the extreme high value for incurred claims are correct. If the data can be confirmed GEOSTAT should look into the possibility that this should be treated as a catastrophe.	Before 15 th November 2019	Geostat
Distribution of FISIM by industry according to NACE Rev.2 classification.	Before 15 th November 2019	Geostat
Calculations for FISIM produced by microfinance organizations for all years with available data.	Before 15 th November 2019	Geostat

Annex 1. Terms of Reference

Terms of Reference

EU Twinning Project GE 16 ENI ST 06 18

7th – 10th October 2019

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

Sub-component 2.1: Compilation methods of National Accounts and New Products

Mandatory results and benchmarks for sub-component 2.1:

- Compilation methods of National Accounts improved and new products implemented

Indicators of Achievement (baseline and targets):

- Availability of Initial National Accounts calculations according to SNA08 as a statistical product
 - **Baseline:** 2019 – National Accounts are published. But NOT according to SNA08
 - **Target:** End of 2019 – initial release of yearly National Accounts according to SNA08
- Number of Staff familiar with SNA08
 - **Baseline:** 2019 – n/a
 - **Target:** March 2021– 5 staff trained on SNA08

Activity 2.1.B “Calculations and estimations of different items”

1. Purpose of the activity

- Update and further assessment of the current situation
- General discussions regarding the transition to SNA2008.
- Identification of specific, remaining issues regarding the SNA2008 implementation plan

2. Expected output of the activity

- Calculations of FISIM, estimation of owner-occupied dwellings output and Government non-market output has been finalized and validated
- Finalizing annual results of Research and Development for integrating in the official GDP estimates;
- Preparation and partly finalizing backward estimates of GDP time series and real growth rates of particular components in production side and expenditure side GDP
- Other needed adjustments for general revision of GDP and implementing SNA 2008 partly finalized
- Work to be done before next mission and issues to be addressed on the next mission has been identified
- Input provided to the ToR of next activity
- Mission report written



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Annex 2. Persons met

Geostat

Mr. Levan Karsaulidze, Head of National Accounts Department
All staff members of National Accounts Department

RTA Twinning Team

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