

TWINNING CONTRACT

Support to the Statistics

Kosovo



MISSION REPORT

on

2.2.1 Review of Annual Accounts by production and expenditure approach

Component no 2 National Accounts

Mission carried out by
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IPA 2012

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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
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
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 third mission carried out in component 2 – National accounts of the twinning project had as main objectives to analyse the ESA 2010 requirements and the implementation in national accounts of Kosovo. The NAD of KAS was involved in IPA 2011 multi-beneficiary project (which finished in May 2014) and is beneficiary of the IMF technical assistance. In the 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 project will finish in June 2014. Based on this situation, the twinning project represents the main support for the development of annual and quarterly national accounts in Kosovo in the next two years (2014 and 2015).

The analysis of ESA 2010 requirements started under IPA 2011 project. A road map for the implementation of the new methodology in Kosovo was elaborated and studies carried out in for the estimation of research and development (R&D) and weapon system. Based on IMF technical support, the estimations of non-life insurance, FISIM and output of central bank have been revised and improved in line with ESA 2010 methodology.

Along the implementation of ESA 2010 changes, a revision of annual data estimation methods started in the frame of IMF project, for: (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 tax 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. This method was applied for 2012, but not for the previous years. The revision is planned to be done for the period 2008-2012, and should be finalised until the middle of August 2014, in order to allow the achievements of the other millstones decided in the action plan. These refer to the transition to NACE rev.2, compilation of GDP by expenditure approaches for 2013 and transmission of time series of GDP based on ESA 2010 to Eurostat in September 2014.

The entire revision process and implementation of ESA 2010 requirements is a difficult task. The revision started under IMF technical support, but any mission is foreseen to be carried out until September 2014 to finalise the calculations. In this condition, the activity should be carry out by KAS with their own resources and impose a very good organisation of the work in order to implement and manage all the changes.

1. General comments

This mission report was prepared within the Twinning Project „Support to Statistics”. It was the third mission devoted to National Accounts (NA) within Component 2 of the project.

The concrete objectives of the mission were:

- Analysis of ESA 2010 methodological changes and their implementation in national accounts
- Starting review of annual accounts by production and expenditure approach

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

The current development of annual estimation of GDP by production and expenditure approaches in line with ESA 2010 methodology was analysed during the mission.

2.1 Analysis of ESA 2010 methodological changes and their implementation in national accounts

The mission started with the revision of the main methodological changes of ESA 2010 and the content of the road map elaborated by Kosovo in the frame of IPA 2011 project. The road map takes into account the current situation of national accounts estimation in Kosovo, the new methodological requirements of ESA 2010 and the new Transmission Programme.

The main changes of ESA 2010 included in the road map to be implemented in national accounts of Kosovo are related with:

- Production boundary: research and development (R&D), FISIM, output of Central Bank, non-life insurance
- Non-financial assets: weapon system.

The other changes are considered either not relevant for Kosovo economy, or, due to the limited resources of KAS, not possible to be implemented in the next period. The following table presents a synthesis of them:

Group	Comments
Units	<ul style="list-style-type: none"> Any issue has been implemented and there is no plan to do; the changes are considered not relevant for Kosovo economy.
Production boundary	<ul style="list-style-type: none"> Reinsurance and output for own final use are considered relevant for Kosovo, but not plans for implementation.
Non-financial assets	<ul style="list-style-type: none"> All the items (except the weapon system) are considered relevant for Kosovo, but not plans for implementation
Financial instruments	<ul style="list-style-type: none"> The items are considered not relevant for Kosovo
Government	<ul style="list-style-type: none"> Some of the items are considered not relevant or with a negligible impact in the economy; The boundary between public/ private/government sectors, restructuring agencies and government permits are consider important, but there are no plans for implementation.
RoW	<ul style="list-style-type: none"> Considered not relevant
Other	<ul style="list-style-type: none"> The items are considered not relevant or with a negligible impact in the economy. The illegal activities there are under study, not the relevance is not yet certain.

Estimates for the R&D and weapon system have been realised; the output of the central bank, FISIM and the output of non-life insurance have been revised in line with ESA 2010 methodology. All the improvements will be integrated in national accounts for the period 2008-2012. The new estimates for 2013 will be based on ESA 2010.

Estimation of R&D was made for market and non-market activity. The non-market output was estimated based on information included in the de government Strategy for R&D. The intermediate consumption was calculated based on the ratio of it in total output of general government. Data from Tax Authority and SBS results have been used for market output. Only the enterprises having as main activity the R&D are included in the estimates. The activity of R&D developed by other units (as secondary activity) was not possible to be identified, as well as the own account production. The intermediate consumption was estimated based on SBS ratio.

Estimation of the weapon system was made for the years 2010 – 2012, based on data from Ministry of Finance. The expenditures of general budget concerning the weapons, vehicles, ammunition and other military equipment have been identified and included in the GFCF of government.

Due to the lack of data sources, any estimation of the consumption of fixed capital (CFC) was realised for R&D and for weapon system.

In the next period, the estimation of R&D and weapon system will be realised for the years 2008 and 2009 and integrated in the revision of national accounts.

2.2 Review of annual accounts by production and expenditure approach

The estimates of annual GDP by production and expenditure approaches have been analysed during the mission. The analysis was focused on the implementation of ESA 2010 methodology and the revisions proposed by IMF.

a. Estimation of output and intermediate consumption

The main annual data sources used for the estimation of the output are:

- Structural Business Survey (SBS), which provide information concerning the turnover obtained, the change in inventories, by types, the intermediate consumption , in total and by kind of products
- Turnover, provided by Tax Authority
- Data from Central Bank for financial and insurance activities
- Data provided by Ministry of Finance concerning the revenues and the expenditures of government
- Data provided by Ministry of Public Service concerning the financial statements of NGOs

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 and the intermediate consumption based on data from SBS and advised to realise a revision of data, starting with 2008.

During the mission, these proposals have been discussed and analysed with NAD staff. The estimation method of the output is in fact the same used previously; the only difference is that the trade output is estimated separately. The calculations analysis under lighted a mistake (the value of turnover from trade was added twice) which increased the total output with almost 40%. Corrections have been made for the year 2012; NAD will do the same correction for the previous years.

For the estimation of the intermediate consumption it was proposed to calculate, firstly, the values in constant prices, using the share of the IC/O from the previous year applied to the output in constant prices and then, by redeflating to obtain the current estimates. This method can be useful for the estimation of quarterly GVA, but not for the annual data, in the conditions when SBS provide information about the purchases and the change in inventories of raw materials useful for the estimation of the intermediate consumption. Using the share of the IC/O of the previous year means that the structure of 2007 is applied to all the following years.

These aspects have been discussed with NAD staff and it was recommended to inform IMF in order to take the right decision. As IMF expert will have any mission foreseen for the next

month, it was recommended to contact her via email and to finalise as soon as possible the estimates.

b. Estimation of GFCF

The estimation of GFCF was revised and recommendations for improvement provided.

Construction

The construction estimation is based on the input method. The value of raw materials provided from import and domestic production represents the intermediate consumption; the output is estimated based on the ratio of IC in output, which is considered to be 65%. The output estimated in this way is included, in totality in the GFCF. The following recommendations have been provided for improvement:

- The current estimation is based on the assumption that all the raw materials imported and produced in the country are used in construction and any enter in inventory. It was recommended to analyse the share of the changes in inventories of raw materials in output from SBS for the main activities that provide products for intermediate consumption and of the change in inventories of good bought for resale, at 4 digits of NACE in order to identify the trade of these products. In order to present and to understand the new calculation, data from SUTs 2007 have been used, and the total value of raw materials imported and produced was adjusted with 10% (it this way, it was considered that 10 % of the total import and domestic production of raw materials used for construction enters in inventory).
- In the intermediate consumption of construction there are other elements, not only the raw materials, as energy, transport, communication, etc. based on the data obtained for the construction cost index calculation, it was consider that other elements represent 10% of the raw materials. This value, added to the raw materials represents the total intermediate consumption, and it was decided that its share in the output is 70% (based on the data from construction cost index).
- The ordinary maintenance and repairs to the construction should not be included in GFCF; based on data from SUTs 2007 it was recommended to consider only 75% of the total construction output as GFCF, the rest represents the intermediate consumption of economic units (non-financial and financial enterprises) and the final consumption of households.

Machinery and equipment

The value of machinery and equipment included in GFCF are estimated based on custom data (due to the fact that the domestic production doesn't provide these kinds of products). The data are grouped by BEC and the codes 41, 42, 52 and 53 are used for the estimation of GFCF. The analysis of the items included in these coded under lighted the fact that not all of them have the characteristics of GFCF (as for examples printers or tires). It was recommended to analyse each of the items included under the BEC classification as GFCF and to eliminate

those with are most for the intermediate consumption or used for the final consumption of households.

Any major repairs is estimated and included in the estimates. It was decided, based on SUTs 2007 to consider that 1% for the total value of GFCF in machinery and equipment represents the major repairs.

The new estimates for R&D will be included in GFCF. For the weapon system, the analysis of the content was made. As the estimation of machinery and equipment is based on data from custom, the military equipment is already included in the total. The only part which was not included is represented by the code 7 (the weapons) of BEC classification and to include the values in GFCF.

c. Imputed rent

Based on population and housing census carried out in 2011, NAD has updated the estimation of the imputed rent, based on the cost approach. The calculations made for the year 2011 have been analysed and recommendations concerning the calculation of the imputed rent for the period 2008-2012 provided. The available data should be collected and included in the calculations; the most difficult is the estimation of dwelling stock in the middle of the year, due to the lack of reliable information. As the calculations should be finished very soon and integrated in the revision of national accounts, it was recommended to use the construction output price index and to estimate and volume index. This could be based on the number of permits for construction (obtained from the municipalities) or to use the volume index of construction.

The imputed rent is part of the GDP by production and included, in totality, in the HFC. It was observed that the value of the small repairs carried out by households has been included twice in the estimation of HFC: the value is part of the imputed rent, but an additional estimation was made based on the commodity flow approach. It was recommended to analyse the figures and to eliminate the double count.

d. Import and export of goods and services

Data on import and export of goods are provided by the Custom; for services, data included in the Balance of Payments (BoPs) are used. The estimation in constant prices for services was revised. It was recommended to estimate the annual values based on the same methodology applied for the quarterly estimates. Import of services in constant prices 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.

3. Conclusions and recommendations

During the mission, detailed recommendations concerning the estimation of annual GDP and implementation of ESA 2010 have been provided.

The entire revision of GDP by production and expenditure approaches, in current and constant prices for the period 2008-2012 should be finished until end of July. The revision means to implement the new estimation methods recommended by IMF and provided during this mission and to include in the estimates the ESA 2010 methodological changes. In August, the efforts will be focussed on the transition to NACE rev.2. Only if these tasks are achieved, the estimates for 2013 could be realised and published as is planned (12 September 2014) the new GDP based on ESA 2010 for the period 2008-2013 sent to Eurostat.

Taking into account the actual stage of the revision, the problems that exist, the human resources and the time remaining until the end of July, it could be the risk that the work will not be realised.

During the mission, a work plan was elaborated, with clear tasks for all staff; it was discussed with the NAD management stressed the necessity to support the achievement of the objectives.

The work plan is the following:

- Revision of annual GFCF based on the recommendations provided, for the period 2008-2013 and sent to the expert for comments:
Deadline: 20 June 2014
- Estimation of annual import and export of services in constant prices for the period 2008-2013
Deadline: 20 June 2014
- Revision of output and intermediate consumption estimation for non-financial units for the period 2008-2012 and sent the new estimations to the expert for comments
Deadline: 20 June 2014
- Revision of Government final consumption for the period 2008-2013, including the estimation of CFC
Deadline: 27 June 2014
- Estimation of weapon system and R&D for the period 2008-2013 and integration into national accounts, specially GFCF
Deadline: 20 June 2014
- Estimation of HFC based on commodity flow method advised by IMF for the period 2008-2011 and sent the results to the expert for comments
Deadline: 15 July 2014

- Final revision of annual GDP by production and expenditure approach for the period 2008-2012, based on NACE rev.1
Deadline: 10 August
- Transition to NACE rev.2 for the period 2008-2012
Deadline: 21 August 2014
- Estimation of GDP by production approach(2013) and expenditure approach for 2013
Deadline: 12 September 2014

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: Review of annual accounts by production and expenditure approach****Scheduling:****Tor –ready date: 23 May 2014****Start / end of activity: 9 – 13 June 2014****Reporting time: 20 June 2014****Mandatory result of the component:**

Mandatory Result	Intervention logic	Benchmarks	Sources of information	Assumptions
2.2.1	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

Consultations and discussion with unit of National Accounts.

The road map for National Accounts found in tabel 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

- 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 accounts estimation

KAS resources:

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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 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:

- Analysis of the ESA 2010 methodological changes and their implementation in national accounts
- Starting review of annual accounts by production and expenditure approach

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, - June 2014

Day	Place	Time	Event
1	KAS	09.00	Planning the week
		09:30	Analysis of ESA 2010 changes.
		10:30	Coffee break
		11:00	Analysis of ESA 2010 changes – continuation.
		12:00	Lunch break
		13:10	Analysis of the results of studies carried out and

			integration in national accounts
		14:30	Coffee break
		15:00	Analysis of the results of studies carried out and integration in national accounts
		16:30	Preliminary conclusions
2	KAS	09:00-12.00	Analysis of the results of studies carried out and integration in national accounts
		12.00-13.00	Lunch break
		13.00-17.00	Analysis of annual GDP estimation methods by production approach
3	KAS	09:00-12.00	Analysis of annual GDP estimation methods by production approach
		12.00-13.00	Lunch break
		13.00-17.00	Analysis of annual GDP estimation methods by expenditure approach
4	KAS	09:00-12.00	Analysis of annual GDP estimation methods by expenditure approach
		12.00-13.00	Lunch break
		13.00-17.00	Analysis of annual GDP estimation methods by expenditure approach
5	KAS	09:00-12.00	Discussion and summary of recommendations concerning the main problems of NA compilation by production and expenditure and approaches
		12.00-13.00	Lunch break
		13.00-17.00	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

RTA Team:

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Nora Zogaj, RTA Assistant