

# 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.B (RS) “Compilation of Financial corporations (S.12) and Non-profit Institutions Serving Households (S.15)”**

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 second 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 January, 25<sup>th</sup> to January, 29<sup>th</sup> 2021. The mission was mainly devoted to compilation of sector accounts for the financial sector and the sector of non-profit institutions serving households.

The purposes of the mission were:

- To prepare the work plan/roadmap for the sub-component
- Work on improvement of compilation methods for Sectoral Accounts continued on the basis of the work plan prepared on the activity 2.3A.
- Compilation of accounts for Financial corporations and Non-profit Institutions Serving Households (NPISH)

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

### General information about the Financial sector (S.12) and sources and methods

During this mission the experts were able to gain insight into the sources and methods for compilation of Sector Accounts for the Financial sector (S.12) as well as for the sector's delimitation.

The entities included in S.12 are Commercial banks, Microfinance organizations, Other financial intermediaries, National Bank of Georgia, Insurance corporations and Financial auxiliaries to financial services and insurance activities. Currently, there are no Investment funds and Holding companies registered in Georgia.

The data sources for the financial sector include:

- FISIM – Data on interest income and interest expenses, Stocks of Loans and Deposits by institutional sectors;
- Data from the National Bank (Income and expenses (aggregated income statement) of commercial banks, microfinance organizations and national bank);
- Data from Insurance State Supervision Service (aggregated income statement of Insurance corporations);
- Data from Statistical Survey of enterprises engaged in financial activities (Geostat).

### D.4 Property income transactions

The compilation of D.4 transactions in S.12 is based on the above mentioned aggregated data sources, where counterpart information is available from the commercial banks' income statement. Information about property income related to insurance activities will also be incorporated into the compilation of D.4.

BoP is the data source for D.43 transactions where an initial assumption has been that S.11 is the only domestic counterpart sector. However, it has been confirmed with BoP that a more precise domestic sector breakdown is possible and will be incorporated into Sector accounts.

Additionally, sources and methods for compiling D.4 transactions for all sectors were also discussed. Based on those considerations Geostat will revisit the sources and possible counterpart information as well as the initial

assumptions about which sectors are involved in D.4 transactions and present an updated framework during the next mission.

## Pension system

The experts were presented with a general overview of the pension system in Georgia.

Up until 2019 there have been four main categories of pension disbursements in Georgia financed by general government revenues:

- Old-age pensions
- Disability pension
- State compensation (special category of pensioners)
- Survivor's assistance

These transactions have been missing from the Sector Accounts framework and are to be incorporated as D.62 transactions from S.13 to S.14.

From 2019 there has also been established a pension fund for pension entitlements accumulation. It operates as a defined contributions funded pension scheme with mandatory participation for all legally employed people in Georgia working in both public and private sector. Three parties are contributing to the fund on a 2%+2%+2% scheme. Each employee, employer and the government are making a contribution of 2% of the gross volume of the employee's income to an individual retirement account. As for the self-employed, they are depositing 4% of their income, and the state is matching another two percent.

The total percentage of the instalment varies from 4% to 6%, depending on the annual taxable salaries and/or self-employed income as follows:

Amount of salary and / or self-employment income [GEL]	Amount to be contributed by an Employer [%]	Amount to be contributed by an Employee [%]	Amount to be contributed by the state [%]	Total[%]
Below 24,000 GEL	2	2	2	6
>24,000 and <60,000	2	2	1	5
Exceeding 60,000 GEL	2	2	0	4

In case of a request for issuance of a pension by a participant in the pension fund, the pension to be received is calculated with the formula:

$$MP = PA / T / 12$$

MP - Monthly pension

PA - is the value of the pension assets in the participant's individual retirement account, including investment and/or other income accrued, excluding costs (if any)

T - Is according to statistics for the participant on the day of submission of the application average remaining years (life expectancy)

The sector classification of the pension fund assigned by Geostat was into the Government sector (S.13), in order to be consistent with the classification in GFS. The experts' recommendation is to classify the pension fund in S.12 due to following reasons:

- The fund operates under market conditions where pension entitlements include accrued investment income generated on market terms
- Pension entitlements are fully funded and not in any way guaranteed with provisions by the government

- Contributions from government of up to 1/3 of the total contributions are not enough to classify the fund in S.13

An illustration and future incorporation of the transactions involved in the pension fund social security scheme were discussed between the experts and Geostat. The transactions have been outlined taking into consideration the rerouting principles from the manuals.

### D.71 and D.72 transactions

Sources and methods for compiling D.71 Net non-life insurance premiums and D.72 Non-life insurance claims were also discussed for S.12 and generally for all sectors. D.71 Uses and D.72 Resources for S.12 are entirely residually calculated in the existing sector accounts framework. It is the experts' recommendation to first use source data and then distribute the residual between several sectors. Source data from insurance corporations is available for premiums and claims by insurance type but more details about sector breakdown of users of insurance services will be also useful. Moreover, the compilation of D.71 Net non-life insurance premiums should apart from premiums earned include also the premium supplements payable out of the property income attributed to insurance policy holders (from D.44), after deducting the service charges of insurance enterprises arranging the insurance.

Another general observation by the experts is that the proportion of claims paid and premiums received by the Rest of the World sector (S.2) is quite large compared to the domestic sector (S.1). However, Geostat explained the reason for this may be the significant reinsurance activities with foreign counterparties. The experts' recommendation is to verify this with BoP.

The topic of D.71 and D.72 transactions will be revisited during the next mission by which time Geostat will have the time to update the framework with the abovementioned considerations and possibly new information from the insurance corporations.

### Non-profit institutions serving households (NPISH)

At the third and last meeting of the mission the NPISH sector was on the agenda. Prior to the meeting the experts had sent some initial questions to Geostat about the delimitation of the sector and the sources and methods used in Georgia. The experts gave a presentation of the sources and methods used in Denmark.

### Delimitation of the NPISH sector

The NPISH sector in Georgia includes private non-profit enterprises (funds, unions, political and religious organizations, charity organizations and etc.) of all kind of organizational form, regardless of type of economic activity, ownership and size. There is no "market test" applied while assigning the status of NPISH. At the meeting there was a discussion about one university in Georgia, who according to their own opinion is a non-profit institution. The experts explained that even though the university makes no profit it could be a market producer, which means that the university could be classified as a non-financial corporation (S.11) and not as a NPISH. In addition, the experts explained that generally the market test should be used as a "rule of thumb" and that other information, i.e. government grants and households' donations, should be used as well in order to distinguish between market and non-market producers. With regards to classifying non-market entities as private (NPISH) or public (S.13) autonomy is to be taken into account.

### Sources and methods used for the NPISH sector

The source used for the NPISH sector in Georgia is a sample based annual survey of non-commercial enterprises. Since the survey includes budgetary non-profit institutions as well, which are included in the general government sector, such kind of organisations are excluded from the survey for national accounts purposes to assign a status NPISH. Sample is created from the enterprise register, which ensures full coverage of registered organisations.

### D.75 Miscellaneous current transfers

D.75 has not yet been estimated for the NPISH sector. Since the resources in the NPISH sector mainly come from voluntary contributions and contingents from the households and from grants from the general

government sector, which are recorded in D.75 receivable, it is important to estimate this transaction. In the survey which is used for the calculation of the NPISH sector there is one question about the sum of received subsidies, voluntary contributions, contingents and grants and another question about the received subsidies. Subsidies are not included in D.75. After deducting the subsidies from the first question what is left corresponds to D.75 receivable. There is still an outstanding about D.75 payable, which has not yet been estimated.

### 3. Conclusions and follow up

- Sequence of sector accounts according to SNA 2008 is compiled for NPISH sector
- Work on compiling sequence of sector accounts according to SNA 2008 for financial sector is started and will be finalized during the next mission
- Information about interest income and other investment income from insurance are to be incorporated into the Sector accounts framework
- Preparations for incorporating the new pension fund into the sector accounts framework from 2019
- D.71 and D.72 transactions to be updated into the Sector accounts framework according to the experts' recommendations
- The experts will send questions on the sources and methods for compiling Capital accounts, where Geostat's answer is needed before the next mission

Actions needed for moving forward:

Action	Deadline	Responsible person
D.4, D.6 and D.7 transactions to be updated in the sector accounts framework and the excel spreadsheet to be exchanged with the experts before the next mission	February, 2021	Geostat
Answer questions regarding Capital accounts by e-mail	February, 2021	Geostat
Incorporate data for Miscellaneous current transfers (D.75) for NPISH in the Sector accounts framework	February, 2021	Geostat

## Annex 1. Terms of Reference

**EU Twinning Project GE 16 ENI ST 06 18**

**25<sup>th</sup> January – 29<sup>th</sup> January 2021**

### **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:** March 2021 – Sector accounts available

#### **Activity 2.3.B (RS) “Compilation of Financial corporations (S.12) and Non-profit Institutions Serving Households (S.15)”**

##### **1. Purpose of the activity**

- Work on improvement of compilation methods for Sectoral Accounts continued on the basis of the work plan prepared on the activity 2.3A.
- Compilation of accounts for Financial corporations and Non-profit Institutions Serving Households (NPISH)

##### **2. Expected output of the activity**

- Updated work plan/roadmap for sub component 2.3
- Sequence of sectoral accounts according to SNA 2008 compiled for two sectors: Financial corporations and NPISH
- Mission report written
- ToR for next activity prepared





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## Annex 2. Persons met

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