



# GEORGIA

## TECHNICAL ASSISTANCE REPORT—EXTERNAL SECTOR STATISTICS MISSION

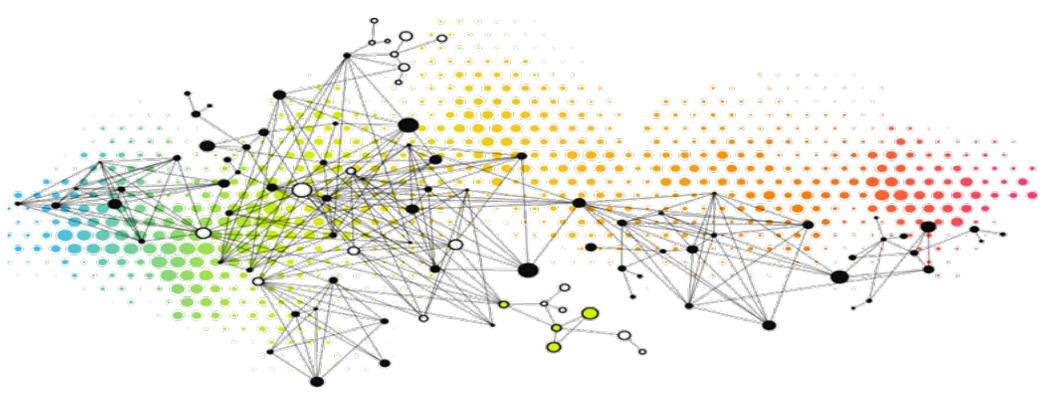
October 2019

This technical assistance report on Georgia was prepared by a staff team of the International Monetary Fund. It is based on the information available at the time it was completed on July 2019.

Copies of this report are available to the public from

International Monetary Fund • Publication Services  
PO Box 92780 • Washington, D.C. 20090  
Telephone: (202) 623-7430 • Fax: (202) 623-7201  
E-mail: [publications@imf.org](mailto:publications@imf.org) Web: <http://www.imf.org>  
Price: \$18.00 per printed copy

**International Monetary Fund**  
**Washington, D.C.**



# GEORGIA

JULY  
2019

## REPORT ON EXTERNAL SECTOR STATISTICS MISSION (MAY 6–10, 2019)

**Prepared by Tamara Razin**

The contents of this report constitute technical advice provided by the staff of the International Monetary Fund (IMF) to the authorities of Georgia (the "TA recipient") in response to their request for technical assistance. This report (in whole or in part) or summaries thereof may be disclosed by the IMF to IMF Executive Directors and members of their staff, as well as to other agencies or instrumentalities of the TA recipient, and upon their request, to World Bank staff, and other technical assistance providers and donors with legitimate interest, unless the TA recipient specifically objects to such disclosure (see [Operational Guidelines for the Dissemination of Technical Assistance Information](#)). Publication or Disclosure of this report (in whole or in part) or summaries thereof to parties outside the IMF other than agencies or instrumentalities of the TA recipient, World Bank staff, other technical assistance providers and donors with legitimate interest, shall require the explicit consent of the TA recipient and the IMF's Statistics Department.

# CONTENTS

Glossary	3
<b>SUMMARY OF MISSION OUTCOMES AND PRIORITY RECOMMENDATIONS</b>	<b>4</b>
<b>DETAILED TECHNICAL ASSESSMENT AND RECOMMENDATIONS</b>	<b>6</b>
A. Action Plan	6
B. Improving the Accuracy of Balance of Payments and IIP Statistics	7
C. Exploring New Data Sources and Other Methodological Issues	12
D. Other Issues	15
<b>FIGURES</b>	
1. Adjustments to CDIS Data Following the Reconciliation with IIP	11
2. Loan Liabilities Composition After the Revision	12
<b>TABLES</b>	
1. Priority Recommendations	5
2. Adjustments to Exports of Goods (Quarter 4, 2018)	8
3. Adjustments to Data on Import and Export of Cars	9
4. Change of Motor Vehicles (HS 870321-870380): Import in February 2019	9
5. Change of Motor Vehicles (HS 870321-870380): Reexport in April 2019	10
<b>APPENDICES</b>	
I. Officials Met During the Mission	17
II. Questionnaire on Crypto Assets	18
III. Criteria for Determining Loan Liabilities Between Affiliates (based on <i>2014 External Debt Statistics: Guide for Compilers and Users</i> )	19
IV. Progress on Implementation of 2016 Mission's Recommendations	20

## Glossary

CDDB	Customs Declarations Database
CDIS	Coordinated Direct Investment Survey
<i>EDSG</i>	<i>External Debt Statistics: Guide for Compilers and Users</i>
ESS	External sector statistics
EU	European Union
GGDA	Georgia Game Development Association
Geostat	National Statistics Office of Georgia
IIP	International investment position
IMTS	International merchandise trade statistics
IMF	International Monetary Fund
NBG	National Bank of Georgia
SAMIA	Service Agency of Ministry of Internal Affairs of Georgia
SEEA	Survey on external economic activity
TA	Technical assistance
UN Comtrade	United Nations Commodity Trade Statistics Database

## SUMMARY OF MISSION OUTCOMES AND PRIORITY RECOMMENDATIONS

- 1. An external sector statistics (ESS) technical assistance (TA) mission visited the National Statistics Office of Georgia (Geostat) in Tbilisi, Georgia, during May 6–10, 2019.** It was undertaken at the request of Geostat and was a follow up to the TA mission conducted in November 2016. The main objectives of the mission were to assess the Geostat’s progress in the area of external sector statistics (ESS) and provide further recommendations on improving the data collection and compilation for producing the financial account components, including direct investment statistics, in an integrated format. Additionally, the mission worked closely with the National Bank of Georgia (NBG)—the institution in charge of compilation of balance of payments, international investment position (IIP), and external debt statistics—on issues related to reconciliation between the data provided by the Geostat with compiled ESS datasets.
- 2. For improving the accuracy of classification of balance of payments components, a review of other sectors’ loans registered in ESS was undertaken to identify the possible affiliation of debtors and creditors.** Among the registered private sector loans, 372 loans have been identified as possibly being contracted within the direct investment relationship and have been subject to detailed scrutiny. After investigating the chain of ownership, 157 loans have been gauged as being from affiliated creditors. The mission assessed the applied selection criteria and assisted in deciding on an additional ten uncertain cases. The Geostat-NBG exercise resulted in reclassifying about USD\$700 million of loan liabilities from other investment to direct investment—debt instruments.
- 3. The coverage and methodological treatment of import/export of cars in international merchandise trade statistics and the balance of payments have been an issue.** Geostat conducted an analysis of dynamics in declared prices for imported, exported, and re-exported cars. With the mission’s assistance and based on the analysis’ results, a method has been agreed for filling the gaps in coverage of imported cars and for addressing the limitations in valuation of re-exported cars.
- 4. The coverage of transactions related to crypto assets in ESS of Georgia has been of concern during the recent years.** Georgia is among the four countries leading in mining Bitcoins and has an established system for transacting in crypto assets. During the meetings with representatives of a mining company and of a company facilitating the foreign exchange transactions in crypto assets, the availability of information related to transactions with nonresidents was discussed. Also, preliminary agreement was sought with the companies for reporting data for balance of payments purposes. A list of indicators for collecting data on crypto assets was drafted that will be tested with targeted companies.
- 5. The mission stressed the need for improving the coverage of transactions related to gambling that have shown a growing trend in recent years, with increasing nonresidents’**

**activities.** A meeting was held with the President of Georgia Game Development Association (GGDA) where it was agreed that Geostat will prepare a list of questions to be included in existing surveys for capturing the value of bets by the nonresidents and their winnings and will discuss it with the administration of a few biggest casinos to assess the possibility of reporting such data.

6. **The mission was also consulted on the treatment of debt liabilities of LLC Marabda-Kartsakhi Railway.** These liabilities arise from the foreign financing of the project for the development and operation of a direct railway link through Georgia connecting the railway networks of Azerbaijan and Turkey. According to the signed agreement, the loan liability, and consequently its service, will be transferred to a joint enterprise that will be established by the Azerbaijan Railways and Georgian Railways when the project is finalized. The two shareholders will have equal shares in the joint enterprise. The mission advised that, based on the loan agreement, this is and will remain an existing debt liability of the LLC Marabda-Kartsakhi Railway until the joint enterprise is established.

7. **Geostat and the NBG worked on eliminating discrepancies in direct investment data disseminated by the former and those included in balance of payments by the latter.** As a result, Geostat established an integrated database on direct investment and started publishing both transactions and positions. The reconciliation exercise also eliminated the discrepancies between IIP and Coordinated Direct Investment Survey data. The mission analyzed the reconciliation results and advised on further steps for eliminating the identified remaining issues.

8. **The staff resources assigned to the production of ESS at Geostat are insufficient.** With the increasing workload due to the compilation and dissemination of new products or to enhancing the coverage and quality of existing products, and bearing in mind the staff turnover, there is need to consider allocating additional staff to the External Trade and Foreign Investments Statistics Department (either on a permanent or contractual basis).

9. **To support progress in the above areas, the mission recommended a detailed one-year action plan (see below), with the following priority recommendations carrying particular weight to make headway in improving Georgia's ESS.**

**Table 1. Priority Recommendations**

Target Date	Priority Recommendation	Responsible Institutions
<b>August 2019</b>	Reclassify the loans assessed as being between affiliated entities from other investment to direct investment in balance of payments, IIP, external debt statistics, and CDIS.	<b>Geostat, NBG</b>
<b>December 2019</b>	Introduce changes in international merchandise trade statistics (IMTS) for addressing issues in coverage and valuation of import, export, and re-export of cars.	<b>Geostat</b>

## DETAILED TECHNICAL ASSESSMENT AND RECOMMENDATIONS

### A. Action Plan

10. The below action plan includes steps to accomplish milestones as well as the target completion dates. The plan is for technical compilers. Actions are prioritized (high (H), medium (M), low (L)).

Priority	Action/Milestone	Target Completion Date
<b>Outcome:</b> Data are compiled using the <b>concepts and definitions, coverage, institutional sector classification</b> of the latest manual		
H	Finalize the revision of other sectors loan liabilities for identifying the affiliation of creditors and debtors.	July 2019
H (PR)	Reclassify the loans assessed as being between affiliated entities from other investment to direct investment in balance of payments, IIP, external debt statistics, and CDIS.	August 2019
H (PR)	Introduce changes in IMTS for addressing issues in coverage and valuation of import, export, and re-export of cars.	December 2019
M	Finalize the list of indicators related to transactions in crypto assets and discuss them with relevant companies.	July 2019
M	Finalize the list of indicators related to gambling activity, in cooperation with the GGDA.	September 2019
<b>Outcome: Source data</b> are adequate for the compilation of ESS		
H	Adjust the survey forms for including questions related to transactions in crypto assets and gambling activity	September 2019
H	Launch the collection of data for ESS based on the revised survey forms.	October 2019
M	Monitor the developments in the market of crypto assets in Georgia for identifying potential new reporters.	Ongoing
<b>Outcome: Resources</b> are adequate for compiling and/or disseminating macroeconomic and financial statistics.		
H	Increase the staff resources allocated to External Trade and Foreign Investments Statistics Department.	2020
<b>Outcome: Data and metadata</b> are easily available and assistance to users is adequate.		
M	Start disseminating the aggregated direct investment data in Geostat publications on assets – liabilities bases, in addition to directional principle.	March 2020, together with the publication of IIP by the NBG

Priority	Action/Milestone	Target Completion Date
<b>Outcome: Revision</b> studies and revision policy have been released internally and/or to the public.		
M	Adjust the revision approach for allowing introducing changes to data for previous years during the compilation of quarterly data, when there is need to assure their consistency with balance of payments data.	Regularly, when needed

11. **The mission acknowledges progress in ESS compilation.** The sub-sections below include detailed compilation information that was worked on with the authorities during the mission and focus on areas where there is scope for further improvements.

## B. Improving the Accuracy of Balance of Payments and IIP Statistics

### Trade in Goods

12. **The trade in goods statistics compiled based on customs declarations database (CDDB) has an adequate coverage of imports/exports (i) by legal entities, (ii) by individuals in value that exceed the allowed limit for non-duty import, and (iii) via postage packages.** Geostat conducts routine control of data registered in CDDB and also replaces the CDDB data on import/export of gas and electricity with data collected directly from companies that transport such goods. It compiles and disseminates the IMTS by country and group of commodities.

13. **The NBG uses the aggregated trade data provided by Geostat for balance of payments needs and makes additional adjustments for both imports and exports** (see details on NBG's adjustments in 2016 TA mission report). The most significant adjustments are based on the results of the comparison of CDDB data with mirror statistics for partner countries using the Comtrade database of the United Nations (<http://comtrade.un.org/>) (UN Comtrade). The NBG conducts a cross analysis of exports/imports for major trade partners (e.g., Turkey, Russia, European Union, Armenia, Azerbaijan, etc.) and calculates the correction coefficients as a proportion of total imports/exports from/to partner countries. Because the cross-comparison is done only for some countries, all trade partners are included in eight groups with average adjusting ratio for each group. Following the 2016 mission's recommendations, the composition of the groups was adjusted to take into consideration the changes in the trade environment of Georgia and its partner countries (e.g., new composition of Eurasia customs union) and the coefficients have been revised regularly. An example of the corrections to export of goods data is shown in Table 2. The mission reiterated that in case of considerable discrepancies between CDDB and Comtrade data, Geostat and NBG to collaborate with Customs for contacting the partner country for cross-checking the discrepancies.

Table 2. Adjustments to Exports of Goods (Quarter 4, 2018)

Geographical Zone	Applied Coefficient (%)	The Data on Export of Goods	
		Before Adjustment	After Adjustment
1	1.29	139.90	180.47
2	1.31	155.34	203.50
3	1.32	122.62	161.25
4	1.33	160.47	213.43
5	1.33	78.55	104.47
6	1.31	147.36	193.04
7	1.25	17.71	22.14
8	1.30	84.51	109.86
Non-adjustable export		1.27	1.27
Total		907.73	1,189.42
Adjustment value			281.69
Average adjustment coefficient			31.0 %

14. **The coverage and methodological treatment of import/export of cars in IMTS and the balance of payments have been an issue.** The import and export of cars have been significant components in Georgia's trade starting from 2004; a considerable drop was registered starting from 2015. Data were compiled based on data maintained by Service Agency of Ministry of Internal Affairs of Georgia (SAMIA). According to the existing procedures, the registration of imported cars is done by SAMIA and importers are granted 60+30 days to register the imported cars together with their customs clearance. However, if within the allowed period the cars are re-exported, those cars are included in export data without their inclusion in import data. The NBG makes rough adjustments to data on import of cars that are re-exported and include the adjustments in balance of payments goods data; however, no adjustments are made yet by Geostat to IMTS data.

15. **Geostat conducted an analysis of dynamics in declared prices for imported, exported, and re-exported cars.** The analysis was done identifying import of new and used cars by companies and individuals comparing the import and re-export prices. With the mission's assistance and based on the analysis' results, approaches were agreed for filling the gaps in coverage of imported cars and for addressing the limitations in valuation of re-exported cars. Geostat should make adjustments to import and re-export of cars based on available information from SAMIA and following the approach described in Table 3.

**Table 3. Adjustments to Data on Import and Export of Cars**

	Importer	Car Category	Price Analysis	Estimation Approach
1a	Companies	New cars	Export prices are higher than import prices	If exported car is not included in import, estimate the import price by deducting (i) the estimated profit margin (approximately 15 percent) and (ii) freight and insurance (based on an ad-hock survey of importers).
1b		Used cars	Export prices are lower than import prices	(i) Consider the export price as import prices; (ii) estimate export prices by adding the profit margin (approximately 10 percent).
2a	Individuals	New cars	Export prices are understated mainly for cars with high engine capacity	Conduct a detailed analysis of data for one month and decide if there is basis for adjusting. If the decision is to adjust the data, adjustment coefficient should be estimated based on the analysis results.
2b		Used cars	Export prices are lower than import prices	(i) Consider export prices as import prices; (ii) introduce the estimated values of imported cars in imports for t-2 month; (iii) estimate export prices by adding the profit margin (approximately 10 percent) for all types of cars.

16. **Geostat conducted a pilot exercise for adjusting the import of cars and their reexport in IMTS for one month following the agreed estimation approach described above.** The results are presented in Tables 4 and 5 and show an increase in import of cars for one month by 3.4 percent and an increase by only 0.7 percent in reexport of car. Geostat should coordinate with the NBG the adjustments to import/re-export of cars in IMTS and balance of payments to assure their consistency.

**Table 4. Change of Motor Vehicles (HS 870321-870380):  
Import in February 2019**

	Mill. USD
Import (before change)	648.1
Change	22.6
Change, %	3.5
Import (after change)	670.7

**Table 5. Change of Motor Vehicles (HS 870321-870380):  
Reexport in April 2019**

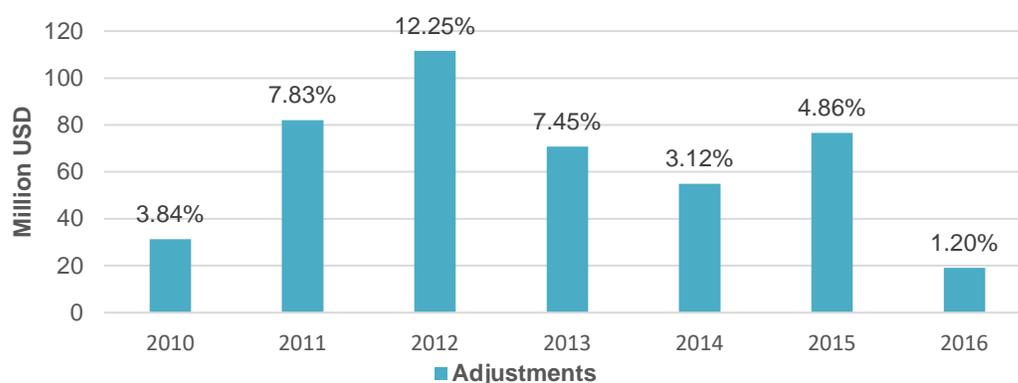
	Mill. USD
Reexport (before change)	307.4
Change	2.4
Change, %	0.8
Reexport (after change)	309.8

## Direct Investment

17. **Geostat is the institution in charge of collecting, compiling, and disseminating data on direct investment.** The main data source for direct investment is the survey on external economic activity (SEEA) conducted on a quarterly and annual basis. Geostat is carrying out the verification and validation of data in SEEA in respect only from direct investment reporters while the verification and validation of data for non- direct investment reporters is performed by the NBG. This distribution of functions assures a timely and better verification of reported data.

18. **Geostat and the NBG worked on eliminating discrepancies in direct investment data disseminated by the former with those included in IIP by the latter.** The reconciliation exercise eliminated the discrepancies between IIP and Coordinated Direct Investment Survey (CDIS) data (Figure 1). The alignment of data was possible after Geostat established an integrated database on direct investment and started the compilation of integrated direct investment data that included flows and positions, and accounted for price and exchange rate changes. The mission analyzed the reconciliation results with focus on flows registered as “other changes”. The data included under that item consist mainly of reclassifications due to change in residence or in institutional sectors. They also covered the downward adjustments due to the liquidation of companies. Apart from the liquidated companies, Geostat is removing from the database through “other changes” also the data on companies that did not submit the survey for two years in a row and did not fill in the tax returns for that period. The mission advised applying a more precautionary approach in such adjustments as some companies could be dormant for some period and restart their activity later. The data for companies should be removed only if there is proof that they are going through liquidation.

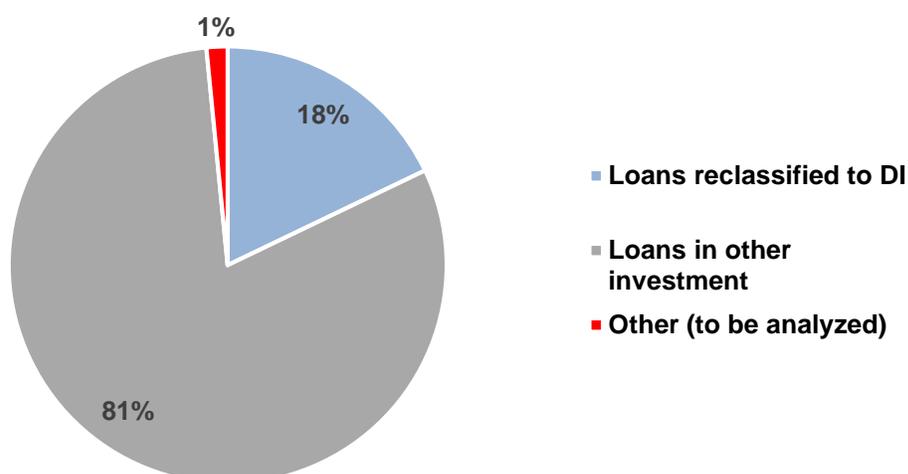
19. **The compilation and dissemination of both transactions and positions for direct investment data is crucial for informed policy making.** In 2018, in addition to flows Geostat started disseminating the positions on direct investment, which has been done in two frameworks—in *BPM6* bases for consistency with balance of payments and IIP and in *BPM5* basis for consistency with CDIS.

**Figure 1. Adjustments to CDIS Data Following the Reconciliation with IIP**

20. **The compilation and dissemination of both transactions and positions for direct investment data is crucial for informed policy making.** In 2018, in addition to flows Geostat started disseminating the positions on direct investment, which has been done in two frameworks—in *BPM6* bases for consistency with balance of payments and IIP and in *BPM5* basis for consistency with CDIS.

21. **For improving the accuracy of classification of balance of payments components, a review of other sectors' loans registered in ESS was undertaken to identify the possible affiliation of debtors and creditors.** It was a common effort undertaken by a Geostat-NBG working group that targeted 1073 private sector loans that registered disbursements/repayments during 2016–2018. From the targeted loans, 372 loans have been identified as possibly being contracted within the direct investment relationship and have been subject to detailed scrutiny. After investigating the chain of ownership, 125 loans have been gauged as being from affiliated creditors applying the established criteria such as the maturity of loan, interest rates, or similarity in names of borrower and lender. The mission assessed the applied selection criteria and assisted in deciding on ten uncertain cases. The exercise resulted in reclassifying about USD\$700 million of loan liabilities from other investment to direct investment—debt instruments (Figure 2).

**Figure 2. Loan Liabilities Composition After the Revision**  
(end-2018, in percent)



**Recommendations:**

- Introduce changes in IMTS for addressing issues in coverage and valuation of import, export, and re-export of cars;
- Finalize the revision of other sectors loan liabilities for identifying the affiliation of creditors and debtors;
- Reclassify the loans assessed as being between affiliated entities from other investment to direct investment in balance of payments, IIP, external debt statistics, and CDIS;
- Start disseminating the aggregated direct investment data in Geostat publications on assets – liabilities bases, in addition to directional principle.

### C. Exploring New Data Sources and Other Methodological Issues

22. **The coverage of transactions related to crypto assets in ESS of Georgia has been of concern during the recent years.** Georgia is among the four countries leading in mining Bitcoins—there are a number of companies in the country that are involved in mining crypto assets, including a subsidiary of Bitfury Group – the world’s largest full service blockchain technology company. During a meeting with representatives of the Bitfury subsidiary, the availability of information related to transactions with nonresidents was discussed. It was also revealed that in addition to mining bitcoins, the company, with the support of parent company, implemented a pilot blockchain land-titling project with the National Agency of Public registry and is working on expanding its blockchain technology solutions to other government departments. At the meeting, preliminary agreement was sought for reporting data for balance

of payments purposes. It was agreed that a list of indicators for collecting data on crypto assets will be drafted that will be tested with the Bitfury subsidiary. The draft list of indicators is presented in Appendix II.

23. **The crypto assets activity in Georgia is facilitated by an intermediary specialized in transacting in crypto assets.** The mission met with the management of e-Money—an intermediary company that facilitates the foreign exchange transactions in crypto assets. During the meeting, information was gathered on the system of registering the transactions in crypto assets. It was revealed that every client that wants to transact in crypto assets is required to create an e-wallet that is maintained on the company’s platform. The creation of the e-wallet requires a full identification of the client (e.g., passport data are stored in the system). As such, the company is able to provide data for the balance of payments purpose based on residence concept. The NBG informed that during 2017–2018 it conducted a survey of e-Money. The mission recommended that the NBG review the survey questionnaire in cooperation with e-Money and launch it on regular basis.

24. **The mission stressed the need for improving the coverage of transactions related to gambling that have shown a growing trend in recent years, with increasing nonresidents’ activities.** A meeting was held with the President of GGDA where it was agreed that Geostat will prepare a list of questions to be included in existing surveys for capturing the value of bets by the nonresidents and their winnings and will discuss it with the administration a few biggest casinos to assess the possibility of reporting such data. The GGDA will provide support in arranging meetings with some casinos’ authorities for exploring the feasibility of reporting on their activity.

25. **The mission was consulted on the treatment of debt liabilities of LLC Marabda-Kartsakhi Railway.** These liabilities arise from the foreign financing of the project for the development and operation of a direct railway link through Georgia connecting the railway networks of Azerbaijan and Turkey. According to the signed agreements,<sup>1</sup> the loan liability, and consequently its service, will be transferred to a joint-venture that will be established by the Azerbaijan Railways and Georgian Railways when the project is finalized. The two shareholders will have equal shares in the joint venture. In providing advice on the classification, the following extracts from the two signed agreements were considered of key relevance:

- Article 3 of the Intergovernmental Agreement and paragraph 5 of the Credit Agreement recognize as “borrower” of the credit line the Marabda-Kartsakhi Railway LLC. Furthermore, Article 5 of Intergovernmental Agreement states: “After the completion of construction and

---

<sup>1</sup> The following available documents were analyzed by the mission: (i) the *Agreement between the Government of Georgia and the Republic of Azerbaijan on the Financing, Design, Construction, Rehabilitation-Reconstruction and Operation Terms and Conditions for Marabda-Kartsakhi Segment of the Railway (to the border of Georgia with the Republic of Turkey within the Implementation of a Baku-Tbilisi-Kars (BTK) New Railway Project* ratified by the Parliament of Georgia on March 28, 2007, and (ii) the *Credit Agreement on the Conditions of Financing the Work on Design, Construction, and Rehabilitation of the Railway Section Running from Marabda to the Turkish Border as Part of the Baku-Tbilisi-Kars Railway Line Project* signed on July 1, 2011.

commissioning, railway segment infrastructure shall be transferred for operation to a legal entity – joint venture, which shall be incorporated in line with the legislation of Georgia, with equal equity participation (i.e., charter capital shall be equally contributed by the founders) of Railway of Azerbaijan CJSC and Railway of Georgia LL.

- Paragraph 8.2 of the Credit Agreement states: “The parties agree that all of the borrower’s obligations as provided for under this Agreement, without exception, including obligations to repay the loan/loans, shall no longer be in force from the moment that an Agreement is signed between the borrower and the joint venture regarding the transfer of the right to use the railway infrastructure of the Section and the assignment of all loan obligations with regard to repayment of the funds.”

26. **The mission advised that the recording of transactions and positions, including those related to debt liabilities, in balance of payments, IIP, and external debt statistics should be done following the standards set out in the sixth edition of the *BPM6* and in *2014 External Debt Statistics: Guide for Compilers and Users (EDSG)*.** Statistical criteria (based on the EDSG) used as the basis in determining the classification of the loan received by the Marabda-Kartsakhi Railway LLC are presented in Appendix III. Applying the criteria to the Marabda-Kartsakhi Railway LLC loan the following conclusions were drawn:

- (i) The Azerbaijan Ministry of Transport, identified in the Loan Agreement as creditor, **owns a claim** Marabda-Kartsakhi Railway LLC identified in the Loan Agreement as debtor.
- (ii) The Loan Agreement requires **future payments to be made**; this requirement **determines the liability as a debt**. The **principle of ownership** is applicable under this Loan Agreement—the Azerbaijan Ministry of Transport owns a claim on the debtor—Marabda-Kartsakhi Railway LLC, and **the debtor has a liability to the creditor**.
- (iii) The **accrual basis for recording** applied in ESS requires that this claim/liability to be recorded when the actual resource flows take place which is when the loan tranches are disbursed by the Marabda-Kartsakhi Railway LLC.
- (iv) This claim and liability is **recorded in books of both parties**—creditor and debtor, respectively—on the date when the change of ownership takes place—the date of disbursement.
- (v) The transfer of obligations for repaying the Loan to the joint venture is a **contingent liability** as it will take place only after a **condition is fulfilled**—the establishment of the joint venture. Consequently, the joint venture cannot be made liable for a debt before being incorporated as a legal entity.

27. **Accordingly, the mission recommended that the liability for the loan disbursed by the Marabda-Kartsakhi Railway LLC is correctly classified in the compiled balance of**

**payments, IIP, and EDS under other investment – loans – other sectors.** The reclassification of the Loan to a debt liability within the direct investment is not applicable as the subsidiary—joint venture—is not yet established, and there is no direct investment relationship between the creditor—The Azerbaijan Ministry of Transport—and the debtor—the Marabda-Kartsakhi Railway LLC. When the joint venture is established, and the debt liability is transferred to it from the Marabda-Kartsakhi Railway LLC, the debt liability will be reclassified from other investment to direct investment – debt instruments.

**Recommendations:**

- Finalize the list of indicators related to transactions in crypto assets and discuss them with relevant companies;
- Finalize the list of indicators related to gambling activity, in cooperation with the GGDA;
- Adjust the survey forms for including questions related to transactions in crypto assets and gambling activity;
- Launch the collection of data for ESS based on the revised survey forms;
- Monitor the developments in the market of crypto assets in Georgia for identifying potential new reporters;
- Continue classifying the Marabda-Kartsakhi Railway LLC’s loan liability under other investment – loans – other sectors.

## D. Other Issues

28. **Geostat and the NBG made good progress in implementing the 2016 mission’s recommendations.** Out of 17 actions recommended by the 2016 mission, 11 were completed and work on the remaining is ongoing. Thus, the methodology for estimating the value of imported hepatitis C medicines was reviewed; the report form for the SEEA was adjusted for better aligning it to reporters’ terminology and reducing reporting burden; discrepancies between balance of payments data compiled by the NBG and the direct investment data produced by Geostat have been eliminated; and extensive work was conducted for compiling the direct investment data disseminated by Geostat in an integrated format that includes both transactions and positions. Details on the implementation of 2016 mission’s recommendations are presented in Appendix IV.

29. **Until 2016, the Geostat revision policy did not allow for the revision of published data considered final.** That policy led to inconsistencies between direct investment time series produced by Geostat and those compiled by the NBG. In July 2016, the Geostat revision policy was changed with the view to permit the revision of time series once a year, when annual data are published. However, considering the NBG revision policy of balance of payments and IIP

where during the compilation of quarterly data for current period data for previous quarters are also reviewed, the inconsistencies between quarterly balance of payments data on direct investment and those published by Geostat remain during the year. It was recommended that Geostat's revision approach of direct investment data to be adjust for covering previous quarters for the current year while compiling quarterly data; the data for previous years will be revised while compiling annual data.

**30. The staff resources assigned to the production of ESS at Geostat are insufficient.**

With the increasing workload due to the compilation and dissemination of new products or to enhancing the coverage and quality of existing products, and bearing in mind the staff turnover, there is need to consider allocating additional staff to the External Trade and Foreign Investments Statistics Department (either on a permanent or contractual basis).

**31. The mission also supported other capacity development initiatives.** At the Geostat's request, the mission participated in meetings with teams operating within two ongoing projects: (i) Eurostat's regional statistical program Statistics through the Eastern Partnership aimed at developing and strengthening capacity building of the official statistics at both regional and national levels; and (ii) Twinning—a European Union (EU) instrument for institutional cooperation between public administrations of EU member states and of beneficiary/partner countries through peer to peer activities (Geostat has been partnered with Statistics Denmark for the component "Development of External Sector Statistics"). Within the first project, the mission assisted in identifying the main areas in goods and services statistics where support would be needed for developing new datasets (e.g., foreign affiliates statistics). Within the second project the focus was on developing an action plan for implementing the earlier agreed modules covering the mirror trade data comparison with EU members and implementing an enterprise survey on cross-border trade in services. The mission's advice was aimed at delineating the outcomes of both projects to avoid overlapping.

**Recommendations:**

- Adjust the revision approach for allowing introducing changes to data for previous years during the compilation of quarterly data, when there is need to assure their consistency with balance of payments data;
- Increase the staff resources allocated to External Trade and Foreign Investments Statistics Department.

## Appendix I. Officials Met During the Mission

Name	Institution
<b>Geostat</b>	
Gogita Todradze	Director
Lia Dzebisauri	Head, External Trade and Foreign Investments Statistics Department
Nino Maisuradze	Head, Foreign Investments Statistics Division
Eka Jananashvili	Head, External Trade Statistics Division
Giorgi Sanadze	Head, Business Statistics Department
Badri Kvachadze	Head, Tourism Statistics Division
<b>National Bank of Georgia</b>	
Archil Mestvirishvili	Vice-Governor
Archil Imnaishvili	Head, Department of Macroeconomics and Statistics
Vakhtang Pkhakadze	Head, Balance of Payments Statistics Division
<b>Expertise France</b>	
Thierry Coulet	Key Expert, Macroeconomic Statistics
Angela Guznac	Project Manager, Economic and Financial Governance Department
<b>eMoney</b>	
Tengiz Lashkhi	CEO
<b>Nodia, Urumashvili &amp; Partners</b>	
Eprem Urumashvili	Partner
<b>Twinning Project (Denmark)</b>	
Mr. Steen B. Pedersen	Project RTA, Statistics Denmark
Mr. Søren Rich	Statistics Denmark
Mr. Stefan Ansbro	Statistics Denmark
<b>Gambling Association of Georgia</b>	
Zurab Beruashvili	President, Gambling Association of Georgia

## Appendix II. Questionnaire on Crypto Assets

(Annex to the Survey Questionnaire on External Economic Activities of Enterprises)

<b>Crypto currency</b>		<b>Total</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>
A	B	C	C1	C2	C3	C4
Number of Bitcoins mined during the reported period	Units					
Value of Bitcoins mined (at price of the day of the transaction)	Currency					
Fees received for validating the transactions	Currency					
Number of Bitcoins sold to nonresidents	Units					
Of which through the domestic intermediary (e.g., E-Money)	Units					
<b>Funds received from parent company</b>						
Other than loans and funds in equity	Currency					
Fixed assets (e.g., computers, servers, etc.)	Currency					
Intellectual property	Currency					

## Appendix III. Criteria for Determining Loan Liabilities Between Affiliates (based on *2014 External Debt Statistics: Guide for Compilers and Users*)

- Paragraph 2.4. For a liability to be included in external debt, it must exist and be outstanding. **The decisive consideration is whether a creditor owns a claim on the debtor.**
- Paragraph 2.7. **It is the future requirement to make payments, not the form of those payments**, that determines whether a liability is a debt instrument or not.
- Paragraph 2.8. Once again, **it is the requirement to make the payment that determines whether the liability is debt**, rather than the timing of the payment.
- Paragraph 2.10. Contingent liabilities ... are defined as **arrangements under which one or more conditions must be fulfilled** before a financial transaction takes place.
- Paragraph 2.25. The guiding principle for whether claims and liabilities exist and are outstanding is determined at any moment in time by the principle of ownership. **The creditor owns a claim on the debtor, and the debtor has a liability to the creditor. ... The accrual basis matches the time of recording with the timing of events** giving rise to the actual resource flows.
- Paragraph 2.26. When a transaction occurs in financial assets, the date of the change of ownership (the value date), and so the day the position is recorded, is **when both creditor and debtor have recorded the claim and liability, respectively, in their books.**
- Paragraph 3.17. The debt instruments within the direct investment category of balance of payments cover borrowing and lending of funds—including debt securities and suppliers' credits (e.g., trade credit and advances)—**among direct investors and related subsidiaries, branches, and associates.**

## Appendix IV. Progress on Implementation of 2016 Mission's Recommendations

Priority	Action/Milestone	Risk Assumptions/ Verifiable Indicators	Target Completion Date	Implementation Status
<b>Data collection and compilation</b>				
H	Review quarterly the ratios applied for adjusting the trade in goods data based on trade partners' data ( <b>benchmark action</b> )	Ratios reviewed and data on goods in balance of payments adjusted accordingly	Quarterly, beginning in June 2017 with compilation of data for 2016	<b>Completed.</b>
H	Collaborate with Customs for contacting the partner countries for cross-checking the discrepancies in mirror data (in case of considerable discrepancies)	Goods data adjusted based on information gathered by Customs from partner countries	As needed	<b>Ongoing.</b> Work will start within the Twinning project, subcomponent 1.1 Mirror Comparison in International Merchandise Trade Statistics (IMTS) under the component 1. Development of the External Sector Statistics.
H	Request from Statistics Canada (or, if needed, from Canada Border Services Agency) information on export prices for hepatitis C medicines	Query sent	February 2017	<b>Completed.</b> The answer from the Statistics Canada was that such transactions are on a humanitarian basis and are registered at invoice price 1 USD.
H	Adjust data on value of imported hepatitis C medicines based on information received from Canadian counterpart ( <b>benchmark action</b> )	Balance of payments and IMTS data adjusted	February 2017	<b>Completed.</b> Adjustments made based on information from some international publications.

Priority	Action/Milestone	Risk Assumptions/ Verifiable Indicators	Target Completion Date	Implementation Status
H	Incorporate coordinated adjustments to Customs and Service Agency of Ministry of Internal Affairs of Georgia (SAMIA) data on import/export of cars and other types of commodities for assuring consistency between balance of payments and IMTS data	Consistent adjustments are introduced in balance of payments and IMTS	Regularly	<b>Ongoing.</b> Analysis conducted. With 2019 mission's assistance, the adjustment techniques were developed, as described in the report above.
H	Adjust the survey form for Survey on External Economic Activities (SEEA) based on changes suggested by the mission and agreed with compilers	Discrepancy is investigated and resolved	February 2017	<b>Completed.</b>
H	Adjust the software for processing the SEEA data with the view to introducing additional validation and checking procedures recommended by the mission	Software adjusted	March 2017	<b>Completed.</b>
H	Explore the feasibility of excluding from SEEA the part "International services" and of launching a separate survey on trade in services	Feasibility assessed	March 2017	<b>Ongoing.</b> The work will be conducted within the Twinning project, subcomponent 1.2 International Trade in Services Statistics.
M	Explore the feasibility of moving of quarterly SEEA from census to sample. If approved, selection of respondents for the quarterly sample for each SEEA part (direct investment and debt liabilities) should be done to assure large representativeness (coverage of about	Feasibility assessed and needed steps undertaken based on assessment's results	May 2017	<b>Ongoing.</b> Geostat is looking for the best practice of sampling survey on FDI.

Priority	Action/Milestone	Risk Assumptions/ Verifiable Indicators	Target Completion Date	Implementation Status
	85% of total investment and 100% of debt liabilities)			
H	Start compiling position data for direct investment (DI) in an integrated format	Position data for direct investment in an integrated format compiled and disseminated	March 2018	<b>Completed.</b>
H	Review the DI time series compiled by Geostat and NBG and introduce necessary changes to assure their consistency ( <b>benchmark action</b> )	Revision conducted, changes made, consistency achieved	December 2017	<b>Completed.</b>
H	Conduct consistency check between DI data disseminated on Geostat website with Coordinated Direct Investment Survey (CDIS) data reported to IMF	Direct investment data disseminated on national webpage and CDIS data reported to IMF are consistent	Each year before submitting CDIS data	<b>Completed.</b>
M	Start compiling the balance of payments and IIP data for nonfinancial corporations for sectoral accounts purposes	Separate balance of payments and IIP data for NFC compiled	February 2017	<b>Completed.</b>
<b>Revision, dissemination, and staff issues</b>				
H	Implement the revision policy of direct investment data covering previous quarters for the current year while compiling quarterly data and previous five years while compiling annual data	Revision conducted and revised data disseminated	Starting with compilation of annual data for 2016	<b>Completed.</b>
M	Review the dissemination format of direct investment data on national webpage (e.g., DI inflows and outflows)	Dissemination format reviewed and improved	Starting with data for 2016	<b>Completed.</b>

Priority	Action/Milestone	Risk Assumptions/ Verifiable Indicators	Target Completion Date	Implementation Status
	for aligning it to balance of payments framework and concepts			
M	Publish the explanations on adjustments made to IMTS data for balance of payments purposes	Explanations on adjustment disseminated for users' benefit	Regularly	<b>Ongoing.</b>
M	Explore the possibility of increasing the staff resources allocate to the External Trade and Foreign Investments Statistics Division of Geostat by two additional units (on permanent or contractual basis)	Staff resources increased	February 2017	<b>Ongoing.</b>