

STATISTICS DIRECTORATE  
COMMITTEE ON STATISTICS

Cancels & replaces the same document of 29 January 2010

**Accession of Israel to the Organisation: Draft Formal Opinion of the Committee on Statistics**

*This Draft Formal Opinion of the Committee on Statistics is based on the Secretariat accession report on Israel [STD/CSTAT/ACS(2009)4] and the discussion on the special session of CSTAT on 26 October 2009. Changes highlighted in the present document reflect modifications from a draft version of the document circulated to CSTAT members by email on 27 November 2009.*

*Committee members are invited to consider the draft formal opinion and agree on its approval by written procedure. If no objection is received by February 8th 2010, it will be concluded that there is agreement on the draft formal opinion.*

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## ACCESSION OF ISRAEL TO THE OECD: DRAFT FORMAL OPINION OF THE COMMITTEE OF STATISTICS

### I. Accession Review Procedure

1. In the Roadmap for the Accession of Israel to the OECD Convention [C(2007)102/FINAL], the OECD Council requested the Committee on Statistics (hereafter "CSTAT") to consider and discuss Israel's policies in the field of statistics and provide a formal opinion to Council on the degree of coherence between these policies and those of OECD Members. In this context, the Accession Roadmap notes that:

"One of the basic obligations of membership expressed in Article 3 a) of the Convention is to "furnish the Organisation with the information necessary for the accomplishment of its tasks". This includes providing short-term, structural and other analytical statistics and their associated methodological information needed by the Organisation for adequate policy analysis and surveillance."

2. The Accession Roadmap provides that CSTAT will:

- i. examine the legal and institutional framework for statistics in the candidate countries, and their conformity with the principles applied in OECD countries;
- ii. assess the quality of the data available in the candidate countries and their comparability with data available in OECD Member countries; and,
- iii. ensure the candidate countries' integration in the Organisation's reporting and information systems upon accession (i.e. examine the ongoing capacity to deliver data for integration into the OECD databases upon accession).

3. In April 2008, CSTAT approved its procedure for carrying out the statistical reviews of the candidate countries [STD/CSTAT/ACS(2008)2] and subsequently received two progress reports from the Secretariat [STD/CSTAT/ACS(2008)3 and STD/CSTAT/ACS(2009)6].

4. CSTAT conducted a review of Israel on 26 October 2009 [see STD/CSTAT/ACS(2009)4].

5. The review by CSTAT was organised into i) a review of the legal and institutional framework for statistics in Israel and ii) an assessment of the quality and comparability of the statistical data available in Israel as well as the capacity of Israel to deliver data after accession that can be integrated into OECD databases.

6. The review considered all domains in which statistics are collected and published by the OECD. These domains were divided into those where the Statistics Directorate is responsible for the collection of data, which were covered in detail, and those where data are collected by another OECD Directorate, for which a brief summary of work undertaken is provided.

7. Within each domain, the fundamental criteria for measuring quality and comparability were “coverage” and “compliance”:

- Coverage: Does Israel have data that cover the variables, time periods and geographic regions that are required by the OECD and that are typically available from existing members?
- Compliance: Does Israel follow the concepts, definitions and classifications that are used for the relevant OECD data programs and that are typically adhered to by existing OECD Members?

8. With regard to the delivery of data and capacity for integration into OECD databases, the review considered data transmission capabilities and whether Israel has the ability to provide up-to-date metadata explaining concepts and methodologies, in one of the official languages of the OECD, English or French.

9. The present statistical review of Israel is based on the following information:

- A detailed assessment of the legal and institutional framework for statistics [STD/CSTAT/ACS(2009)4/ANN1].
- Israel's responses to a number of data collection questionnaires sent by the Secretariat.
- Independent research by the Secretariat which was subsequently verified with Israel.
- Data collection missions by the Secretariat in several statistical domains including, in particular, national accounts, and international trade.
- An expert peer review mission on 5-8 July 2009 by representatives of statistical offices of the United States and Eurostat as well as Secretariat officials.
- A detailed and comprehensive report produced on the basis of all of the above elements entitled “Assessments of Israeli Statistics by the OECD Statistics Directorate” [STD/CSTAT/ACS(2009)4/ANN1].
- An accession review report produced by the Secretariat [STD/CSTAT/ACS(2009)4].
- An accession review meeting of CSTAT on 26 October 2009.

## II. Legal and Institutional Framework

10. The assessment of Israel's legal and institutional framework for statistics [STD/CSTAT/ACS(2009)4/ANN1] considered pertinent laws, regulations and policies that govern the activities of all the major producers of statistics in the National Statistics System (NSS). The objective of this review was to determine whether the framework for statistics is in conformity with the principles applied in existing OECD countries.

11. The basis for the assessment of Israel's legal and institutional framework for statistics is adherence to the *United Nations Fundamental Principles of Official Statistics* developed by the United Nations Statistical Commission. The review also made extensive reference to the observations of several other international organisations including the International Monetary Fund (IMF), and Eurostat.

12. The assessment noted that the Israeli NSS is centralised with the head of the Central Bureau of Statistics (CBS) also serving as the Chief Statistician of Israel and playing an overall coordinating role. As

in many OECD countries, the statistics bureau and the head of the CBS are governed by the same regulations that apply to other government agencies and senior public servants. The special autonomy and independence that is desirable for a statistical agency is established through practice rather than through explicit regulation. The role of the CBS as an objective producer of data is accepted and supported by the government and other Ministries. The peer review team noted in particular the co-ordination and cooperation between the CBS and the Central Bank of Israel.

13. Nevertheless, there are areas where the framework could be further improved. The first concerns the duration of the Director's appointment. New Israeli regulations limit the appointment of heads of departments and agencies, including the CBS, to a single, non-renewable, 6 year term. Given the highly-specialised nature of the functions and the need for continuity of programmes, the review concluded that either a longer term or renewal for a second term should be considered. The second concerns dissemination policy. The CBS is encouraged to publish fixed and unchangeable release dates for all key economic indicators, 12 months in advance. Such advance announcements ensure transparency and strengthen the perception of objectivity of the data dissemination.

### **III. Quality and Comparability of Statistical Data and Capacity for Integration into OECD Databases**

14. Below are summaries of assessments of the quality and comparability of Israeli data by subject. Fuller information is provided in the review of Israeli statistics considered by CSTAT on 26 October 2009 [STD/CSTAT/ACS(2009)4 and STD/CSTAT/ACS(2009)4/ANN1].

15. Questions about seasonal adjustment relate to many of the programs covered below. The CBS has agreed to provide information on seasonal factors, trading days and regular holiday routines in order for the OECD to gain a better understanding of seasonal factors in Israel.

#### **A. Data Collected by the Statistics Directorate**

##### **(i) National Accounts**

16. The CBS has responsibility for producing the national accounts. The review confirmed that Israel's national accounts comply with the *1993 System of National Accounts* (SNA93) in most respects.

17. Nevertheless, a number of compliance issues were noted including treatment of defence-related assets; expenditures on entertainment, literary and artistic originals; financial intermediation services indirectly measured; and taxes, subsidies and government purchases. Also, the review noted several shortcomings with the volume estimates of Gross Domestic Product produced by the CBS.

18. Concerning the geographic coverage of Israel's official statistics, the Committee notes that these include the Golan Heights, East Jerusalem and Israeli settlements in the West Bank. According to the SNA93, the total economy consists of all the institutional units which are resident in the economic territory of the country (paragraph 2.22). In this regard, the SNA notes that "the boundaries of a country which may be recognised for political purposes may not always be appropriate for economic purposes and it is necessary to introduce the concept of the 'economic territory' of a country as the relevant geographical criteria to which residence is applied" (paragraph 14.8). The SNA defines the economic territory of a country as "the geographic territory administered by a government within which persons, goods, and capital circulate freely" (paragraph 14.9).

19. Irrespective of what may constitute the economic territory of Israel, there may be an issue relating to the inclusion of economic activity that is measured according to a criterion of nationality and not according to a criterion of residency outside Israel in. This can arise for figures relating to domestic

economic activity, such as measures of Gross Value Added, Gross Domestic Product, or Gross Domestic Income or the Labour Force. The SNA93 provides that the concept of residence is not based on nationality (paragraph 14.8). Hence to the extent that economic activity is measured according to a criterion of nationality, Israel's data is at variance with one of the basic concepts of the SNA. According to the SNA Guidelines, the total economy of a country consists of all units that are resident in the economic territory of the country. This issue is addressed in part through a commitment by Israel to provide supplementary small area data in order to allow adjustments to its statistics (see section IV below).

20. The coverage and timeliness of Israel's national accounts are satisfactory overall, but there are gaps including the lack of seasonally-adjusted data and incomplete sector accounts (for example, the CBS does not compile financial accounts and its balance sheets are incomplete). Also, as with many OECD countries, the production and consumption of illegal products are outside the scope of Israel's National Accounts.

21. The areas in which further improvements are needed in Israel's national accounts statistics are described in more detail in the review documents [STD/CSTAT/ACS(2009)4 and STD/CSTAT/ACS(2009)4/ANN1]. The CBS has undertaken an ambitious programme of work to address virtually all of these issues.

22. Given the work initiated or completed to address deviations from international standards, the Committee is satisfied that the quality and comparability of Israeli national accounts are, or will be, similar to those of OECD Members and will be adequate for the OECD to carry out its work.

#### *(ii) Business Register*

23. The CBS statistical business register maintains information at the enterprise level and is updated on a regular and timely basis using a number of different source files. Documentation of the register is adequate and the Committee is satisfied with the quality of this infrastructure tool. It should be noted that the issue of inclusion of economic units based on nationality rather than residence is also an issue for the business register. In addition to the enterprise information, Israel has begun to collect employee data at the establishment level, for large enterprises. This development is to be encouraged since such firm-level data has useful applications in analysis of firm dynamics.

#### *(iii) Business Statistics*

24. The OECD collects statistics on Structural and Demographic Business Statistics (SDBS) which includes three databases: Structural Statistics for Industry and Services (SSIS), Business Statistics by Size Class (BSC), and Business Demography (BD). Israel's business statistics meet the requirements of the OECD for its Structural and Demographic Business Statistics (SDBS) programme. In addition to data, Israel has transmitted methodological information for all SSIS and BSC indicators produced from both the Business Register and surveys. The timeliness of the SDBS data already transmitted is satisfactory. Nevertheless, the review also identified several shortcomings, notably the unavailability of Business Register before 2003 and the lack of detailed level of information for both SSIS and BSC. In response, Israel noted that, while it is impossible to create data for periods up to 2003, it will provide detailed data for trade, services, transport and communications, beginning with the year 2004.

25. Birth and death figures transmitted by CBS are compliant with the Eurostat-OECD manual definitions. Data on high-growth enterprises are not available yet.

***(iv) Financial Statistics***

26. The OECD collects information on five financial statistics topics: financial accounts and balance sheets; households' assets; institutional investors' assets; bank profitability; and central government debt. Data is collected by the Statistics Directorate in association with the OECD Directorate for Financial and Enterprise Affairs.

27. Financial accounts data are not yet fully satisfactory and their quality and coverage are not yet comparable with other OECD countries. No information has been provided on the compilation method and clarification regarding the consolidation of accounts is still required. Although Israel is not yet able to provide non-consolidated balance sheet data, plans are in place to provide most required data in two waves, by the end of 2010 and then the end of 2011. Similarly, financial accounts transactions are not available but plans are in place to fill the gaps in various stages from the end of 2009 to the end of 2011. Finally, information on short-term and long-term loans and securities; mutual fund shares and other equity are not yet available because of inadequate or non-existent source data.

28. Israel has committed to provide a complete data set on households' assets by the end of 2009. Accordingly, an assessment will be carried out on this topic in due course.

29. Israeli data on institutional investors' assets are not yet fully satisfactory. Coverage of sectors is limited and there are also some difficulties especially with respect to the integration of institutional investors' data into financial balance sheets.

30. Data on bank profitability are partially satisfactory. The number of categories covered on financial statements is limited and some items are missing. The data reported are not been broken down by residency and the methodological survey will need to be completed.

31. Data on central government debt are satisfactory but the time period covered by the data needs to be extended backwards.

32. Overall, the Committee's assessment is that the various financial statistics available for Israel are not yet fully satisfactory. However, the Committee has noted the commitment of both the Central Bank of Israel and the CBS to resolve the above-mentioned shortcomings and is confident that this process will continue after Israel's accession.

***(v) International Trade in Goods and Services***

33. This subject domain includes three distinct programmes: Monthly Statistics of International Trade (MSIT), International Trade by Commodity Statistics (ITCS) and International Trade in Services Statistics. All international trade data are produced by CBS though source data are provided by the customs authorities.

34. The Israeli MSIT complies with the UN's International Merchandise Trade Statistics (IMTS) concepts and definitions and other OECD requirements in most respects. Nevertheless, the review identified a number of issues including in the areas of monthly import and export indexes for both unit value and volumes, denomination of trade and balance of payments in the national currency and use of the General Trade System.

35. The Israeli ITCS also complies with the UN's IMTS in most respects. Nevertheless, a number of areas for further work were identified including those relating to transit trade, denomination in the national currency and gaps in methodological information.

36. Finally, regarding International Trade in Services Statistics, Israel meets the OECD requirements regarding coverage, compliance, timeliness and data transmission. However, some of the main services items are not yet covered. Data on International Trade in Services by Partner Country (TISP) have not been fully assessed since it is a new programme and only data for 2004 are currently available. The Secretariat will continue to work with CBS as results from 2006 and 2007 become available.

37. An additional observation of the review was that Israel's foreign trade data are dependent on contractual agreements with a private firm that processes customs data. It was noted that the arrangement left the CBS foreign trade programme rather vulnerable in case of difficulties with the private firm in question.

38. All of the issues noted above are described in detail in the review documents [STD/CSTAT/ACS(2009)4 and STD/CSTAT/ACS(2009)4/ANN1]. The CBS and Bank of Israel have recognised and acknowledged the shortcomings and have responded with a number of initiatives to address them. These programmes are either already in place or they are in the advanced planning stages. Overall, the Committee felt that Israel will be able to meet the OECD requirements regarding statistics on international trade in goods and services.

***(vi) Balance of Payments***

39. Israel meets OECD requirements regarding coverage, compliance, timeliness and data transmission. The CBS will make more information on sources and methods in English available on its website by the end of 2009.

***(vii) Prices Statistics***

40. The review considered Consumer Price Index (CPI), Producer Price Index (PPI) and Purchasing Power Parity (PPP) programmes.

41. CPI data meet all requirements in terms of compliance, coverage, timeliness and data transmission and in this respect compare favourably with many OECD countries. However, the limited use of direct quality adjustment methods in key areas and the problem of quality differences for Owner Occupied Housing are two areas for improvement.

42. Israel does not produce an output PPI but produces a very reasonable approximation with a wholesale price index (WPI) for industrial output. The main differences between the PPI and the WPI are that exports are excluded and prices are measured inclusive of sales taxes and value added taxes. The CBS plans to develop a PPI of manufacturing output for export and a total PPI.

43. Finally, as a member of the Eurostat-OECD PPP programme since 1996, Israel meets the quality requirements of the programme. Israel is currently in the process of improving the synergies between CPI and PPP.

***(viii) Labour and Labour Compensation***

44. Israel's short-term labour statistics meet the OECD minimum requirements for the Main Economic Indicators (MEI) although coverage could be improved, notably for unemployment rates by industry and labour force by gender. The data are currently classified according to the International Standard Industrial Classification of all Economic Activities (ISIC) Rev.3 and the planned move to ISIC Rev.4 will improve compliance. Finally, the length of the series available from the CBS will be improved as the CBS is currently in the process of extending all the series back to 1980.

**(ix) Indexes of Production and Demand**

45. Israel meets the minimum MEI requirements in terms of coverage and compliance but the Committee encourages CBS to move ahead with plans to provide missing series and to move to ISIC Rev.4.

**(x) Short-term Financial Statistics**

46. Israel meets the monthly MEI requirements for short term financial statistics including interest rates, monetary aggregates, share prices, and reserve assets. Moreover, Israel is considering the feasibility of developing seasonally-adjusted monetary aggregates, which will further improve compliance.

**(xi) Business Tendency and Consumer Opinion Surveys**

47. The review confirmed that Israel's business tendency surveys comply with the OECD requirements in terms of coverage and compliance. For the services, manufacturing and construction sectors, the variable "employment: future tendency" is not currently available. Israel has undertaken the development of job vacancy statistics which will address this shortcoming. Finally, with regard to consumer opinion surveys, Israel does not currently compile any indicators and does not plan to do so in the near future.

**B. Data Collected by Other OECD Directorates**

48. **Development Assistance Statistics:** Israeli data are satisfactory in terms of quality and coverage.

49. **Energy Statistics:** No energy information has been received from Israel recently. However, new contacts have now been established.

50. **Environment Statistics:** There are currently significant gaps in environmental data on air, inland waters, forests, wildlife, waste and environmental protection expenditures and revenues. Nevertheless, Israel expressed a high degree of interest in benefitting from the experience and assistance of other countries and international organisations such as the OECD in the field of methodologies and calculation methods for particular parameters.

51. **Pensions and Insurance Statistics:** Israel has provided statistical information on funded pensions since 2005 using the standard OECD questionnaire. Israel meets OECD standards in terms of compliance, coverage and timeliness. For insurance, Israel has provided data in a timely manner since the implementation of a standard questionnaire in 2008.

52. **Population, Employment, Health and Other Social Statistics:** Data collection has been initiated for statistics on labour force; families; income distribution; social expenditures; labour market programmes; pensions, wages and benefits; and sickness, disability and work. Questionnaires have been returned by Israel for all subject areas and data are being evaluated. Data on international migration comply with OECD requirements.

53. **Revenue, Wage and Tax Statistics:** With respect to the OECD Revenue Statistics publication, Israeli figures are on a cash-revenue as opposed to an accruals basis. Further clarification is required concerning the classification of revenues and the need to show more details on the revenues for individual taxes. With respect to the OECD Taxing Wages publication Israel has satisfactorily submitted data from 2006 and has provided methodological notes.

54. **Regional, Territorial and Government Statistics:** A first evaluation on the inclusion of statistics from Israel in the OECD regional database is currently in progress.

55. **R&D, ICT and Other Industry, Science and Technology Statistics:** Israel already provides the Secretariat with data on research & development. Furthermore, statistics on access to and use of information and communication technologies by households and businesses, on revenues of and investments in telecommunication infrastructure and on internet and broadband subscribers also meet OECD standards. The OECD STructural ANalysis (STAN) database includes annual measures of output, labour input, investment and international trade. Israeli data will be included in STAN once Israel supplies national accounts data at the ISIC two-digit level (A31) for 2008.

56. On activities of multinationals, CBS provided data, which needs to be completed, on both inward and outward activity of multinationals as well as data on parent companies.

57. **Tourism Statistics:** Tourism data are produced by the Ministry of Tourism and follow UN recommendations. Data are of good quality and meet OECD requirements. Tourism satellite account data are also available.

#### IV. Geographic Coverage of Statistics

58. The Committee takes note of the fact that statistics produced by Israel include the areas of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank.

59. With regard to data for macro-economic analysis, the statistics produced by Israel will be used after accession for practical reasons including the fact that it is necessary to work with the same macro-economic data as the national authorities and other international organisations such as the World Bank and the International Monetary Fund. The relative size of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank suggests that including these territories is unlikely to make a significant qualitative difference to international macro-economic comparisons. Absent the relevant data, it has not been possible to verify this presumption statistically. However, it will be assessed in due course through a statistical study (see paragraph 62 below).

60. With regard to specificspecialised statistics, it is plausible to assume that certain specific data, in particular in the areas of demographic, labour forces, social and construction statistics may be affected by the difference in geographic scope. In this regard, the Committee takes note of the following commitment made by Israel at its meeting on 26 October 2009:

“In accordance with Article 3 of the OECD Convention, Israel as an OECD member country will provide to the OECD, on request of the Secretariat, additional micro-data relating to neighbourhoods of Jerusalem, the Golan Heights and the Israeli Settlements in the West Bank. These micro-data will include population, births and deaths, demographic and labour force characteristics, household income distribution and poverty. Additional topics to be covered by the above micro-data may be added according to the specific needs.”

61. The Committee observes that the provision of this additional data by Israel will allow the OECD to work with specificspecialised statistics that do not include the Golan Heights, East Jerusalem and Israeli settlements in the West Bank. Finally, ~~the~~ The Committee notes that the Secretariat, in consultation with Israel, will identify any additional topics on which supplementary data are needed.

62. With regard to the question of the geographic scope of macro-economic and specific statistics on Israel, the Committee recommends that a study be undertaken together with the Israeli authorities in order to assess the quantitative impact of the Golan Heights, East Jerusalem and Israeli settlements in the West

Bank on key economic and social aggregates. This study will be presented to the Committee within one year after Israel's accession to the Organisation. Israel has committed "to actively cooperate in the post-accession study relating to the geographic scope of macro-economic and specific statistics to be presented to the Committee on Statistics within one year after Israel's accession to the Organisation" and, in this regard, "to provide necessary data to the extent possible, as well as qualitative and methodological information about source data".

**V. Reporting after Accession**

63. As set out above and in the accession report [STD/CSTAT/ACS(2009)4 and STD/CSTAT/ACS(2009)4/ANN1], the Committee has made number of recommendations for further work by Israel in order to adhere to best practices of the Organisation for statistics. The Committee will request Israel to submit a progress report on these issues within two years after accession.

**VI. Conclusion of the Committee**

64. Based on its review and taking into account the above-mentioned commitments made by Israel as well as the recommendations made by the Committee in paragraphs 62 and 63 above, the Committee on Statistics concludes that there is a sufficient degree of coherence between the policies of Israel and those of OECD Member countries in the field of statistics.