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Joint ECE/OECD Meeting on National Accounts

(Geneva, 27-29 April 1994)

DRAFT REPORT (CONTINUED)

IV. FUNCTIONAL CLASSIFICATIONS IN THE 1993 SNA

Documents: CES/AC.68/7;

29. The UNSTAT representative presented a paper on functional classifications. The need for work on functional classifications as part of the implementation of the 1993 SNA was emphasized by the Statistical Commission in its 1993 session. Suggestions for their use in national accounts are contained in chapter XVIII of the 1993 SNA. Included in the chapter are four types of functional classifications, i.e.

- (i) Classification of the Purposes of Non-Profit Institutions serving households (COPNI);
- (ii) Classification of Outlays of Producers by Purpose (COPP);
- (iii) Classification of the Functions of Government (COFOG);
- (iv) Classification of Individual Consumption by Purpose (COICOP)

30. The functional classifications of expenditures are needed to identify expenditures that respond to social and economic concerns. They may be carried out by different sectors of the economy in different ways. The government and also non-profit institutions serving households pursue those policies explicitly through most of their expenditures. For corporations intermediate consumption, compensation of employees, taxes on production,

consumption of fixed capital and gross fixed capital formation are the relevant expenditure categories. Households express their purposes through consumption.

31. The UNSTAT paper suggested the development of an umbrella classification to facilitate cross-sectoral analysis. The umbrella classification would be linked to separate functional classifications for each sector which may be different in detail. The umbrella classification may be either an aggregate functional classification with mutually exclusive categories or a list of social and economic concerns that are not mutually exclusive.

32. The list of socio-economic concerns would be periodically updated and correspondence tables between this list and the categories of each classification would be defined. Computer software could be used to make reclassification of expenditures according to different social and economic concerns feasible. The advantage of this procedure is that existing classifications would not need to be updated frequently, only their correspondence to an updated list of social and economic concerns would have to be periodically reviewed.

33. In the ensuing discussion there was general agreement that the topic was of high interest. Some argued that linking ISIC and CPC with the functional classifications as suggested in the paper may be too ambitious, particularly because ISIC and CPC are based on classification criteria that differ from those on which the functional classifications of expenditures are based. Another participant suggested, however, to expand the links of socio-economic concerns to other classifications, so that not only expenditures, production and products would be linked to socio-economic concerns, but also finance. Some participants expressed the view that mutually exclusive categories were better than mixed ones, whereas other participants thought that for satellite accounts analysis overlapping of social concerns (e.g. between health and education) was unavoidable.

34. It was also noted that some expenditures were not covered by any of the socio-economic concerns mentioned, while they were identified in the categories of the separate functional breakdowns. In this context the UNSTAT representative reminded the meeting that the list of socio-economic concerns was not necessarily exhaustive and that therefore not all outlays would match the categories of such a list.

35. Some participants thought that it was more urgent to develop the separate functional classifications first and worry about their links at a later stage. On the other hand, it was noted that parallel development of a theory of classification was necessary in support of the elaboration of practical details, as such theoretical development may help in the definition of appropriate links between the classifications.

36. Most participants agreed on the need rapidly to revise the functional classifications of expenditures, particularly COFOG and COICOP. It was proposed that a timetable for future work be established and that a special group be constituted for that purpose. The UNSTAT representative stated that the timetable was not yet defined and that a final decision on how to develop this work will be taken by the ISWGNA. The meeting was reminded by the IMF representative that in the recent past harmonization of the classifications of the 1993 SNA with the corresponding IMF classifications of the revised Manual of Balance of Payments was achieved, and that a revision of COFOG and the joint IMF/OECD Classification of Government Revenues could be carried out in the context of the revision of the GFS.

37. Finally reference was made to UNSTAT's work on maintaining an updated inventory of classifications which, however, does not include any work on linkages between classifications.

V. IMPLEMENTATION OF THE 1993 SNA

Documents: CES/AC.68/3, CES/AC.68/4, CES/AC.68/5, CES/AC.68/6, CES/AC.68/8, CES/AC.68/9, CES/AC.68/10, CES/AC.68/11, CES/AC.68/12, CES/AC.68/14, CES/AC.68/15, Discussion Document No.5, and No.7 and paper from The former Yugoslav republic of Macedonia;

38. The discussion on this agenda item has shown that first experiences with implementation of the 1993 SNA vary from one country to another.

39. OECD member countries are concerned about the following kinds of issues: classifications of institutional sectors and units, interpretation of "economically significant prices", treatment of financial leasing (some countries are already implementing the new recommendations), recalculation of historical series and the choice between fixed base and chain indices. Some of these issues deserve particular attention ; for example - institutional sectoring needs to be dealt with carefully because it is relevant not only for the SNA and the determination of units within its scope, but also has implications for politically sensitive statistics derived from other international systems such as Government Finance Statistics (IMF). Since precise quantitative criteria do not exist to determine which prices are economically significant, participants supported the view that their implementation must rest partly upon expert views and judgement of national statistical offices. The ISWGNA is also ready to give its advice on interpretation on this, and other parts of the SNA guidelines.

40. A proposal for an exchange of information and wider dissemination of practical solutions concerning some of these problems was supported by all participants. The assessment that an open dialogue on possible solutions and new ideas is desirable has already prompted the Intersecretariat Working Group on National Accounts to discuss a possible mechanism for communication among countries and organizations involved. The proposal was

made that one of the ways may be through the "SNA Newsletter". This channel for an exchange of information would not only facilitate circulation of ideas between countries seeking solution to specific problems in implementing the 1993 SNA and those who may have already found a solution, but would also improve international comparability.

41. Some other participants presented their plans and efforts to change and expand their former, simpler systems of reporting national accounts to the full comprehensive SNA and achieve a higher degree of compatibility with the 1993 SNA. At the same time, and facing similar problems related to the necessary training of the existing staff, insufficient coverage and reliability of statistical sources at their disposal, these countries are making additional attempts to compile quarterly and regional accounts as well as satellite accounts for some important activities (education, health, research and development, cultural services, environment, transport and tourism). One participant recommended an exception to the SNA guidelines concerning the treatment of taxes and subsidies on imports and exports. It was argued that this solution maintains the consistency in measurement of the GDP in countries where international trade is relatively important and where taxes and subsidies are levied on imports and exports to avoid frequent devaluations.

42. The use of chain indices for the calculation of volume changes provoked a productive discussion. Various approaches and solutions in publishing and presenting volume changes and constant prices in national accounts were presented with different solutions to the problem of "aggregate differences" which arise from the non-additivity of chain indices. Most participants argued that these differences should be explicitly shown in the accounts, but others argued that it was more helpful to users to eliminate these differences by some kind of a "smoothing technique".

43. Most of the transition countries are facing similar difficulties to OECD countries in implementation of the 1993 SNA. They appear to be compelled to compile national accounts quickly as significant changes are taking place in national economies.

44. Among the most common difficulties that national accountants in transition countries are confronting, the following were emphasized:

- revision of historical series;
- difficulties to calculate holding gains/losses;
- problems in calculating imputed banking services and other financial intermediation services indirectly measured;
- calculation of the budget deficit/GDP ratios;
- measuring high inflation and its impact on macro-economic aggregates;
- calculating imputed rents (owner occupied dwellings) because of the lack of a developed real estate market;
- problems related to privatization which creates difficulties in establishing market prices of assets, as they are very often not sold but distributed free of charge;
- determination of the reference interest rate;
- accounting for the contribution of the hidden/underground economy to the GDP;
- estimation techniques and methods of approximation in conditions when basic data are of low quality.

45. Problem of compiling national accounts under conditions of high inflation is of particular importance to most transition countries. It was suggested that transition countries should exchange materials on their particular experiences in dealing with this problem.

46. Participant acknowledged that the 1993 SNA contained much useful guidance on the problem of high inflation. However, they stressed that the

ISWG on National Accounts should give high priority to this issue in order to facilitate dealing with aggregation problems and holding gains in countries with high inflation. Participants were informed that the ISWG has envisaged preparation of a "High-inflation Manual" and that the production of such a handbook is under active consideration.

