



STATISTICAL COMMISSION  
Eleventh session  
Item 13(c) of the provisional agenda

CLASSIFICATION OF GOVERNMENT ACCOUNTS

Progress Report on Classification of Government Accounts  
and Summary of Comments received from Governments

(Report by the Secretary-General)

1. At its tenth session, the Statistical Commission took note of the completion of A Manual for Economic and Functional Classification of Government Transactions (ST/ECA/49), requested the Secretary-General to draw the document to the attention of the statistical offices of Member States and to submit a progress report on classification of government accounts to the Commission at its eleventh session, together with a summary of the comments received from governments and interested regional and international organizations.

2. In accordance with the resolution 486D (XVI) adopted by the Economic and Social Council at its sixteenth session and in response to the request of the Commission at its ninth and tenth sessions, the Manual was circulated to the national statistical services and national fiscal authorities as well as to interested regional and international organizations for their information, observations and comments. A summary of the comments received is included under part B of the paper.

A. Progress Report

3. Subsequent to the meeting of the Statistical Commission in April 1958, the French and Spanish editions of the Manual were published. Another opportunity to test the applicability of the classification schemes of the

Manual presented itself at the Budget Workshop for South America which was held in Santiago from 26 May to 6 June 1959. The Workshop expressed the view that the Manual contained the information required for the gradual development of classification of government transactions according to economic and functional categories. Such classifications were considered indispensable for the formulation of economic and fiscal policies of governments. The report adopted at the Workshop "Seminario de Clasificación y Administración Presupuestarias en Sudamerica" (ST/TAO/SER.C/39) has been issued in Spanish in December 1959. An English edition is under preparation.

4. The discussions at the South American Workshop as well as at preceding workshops indicated that economic and functional classifications of government transactions would have to reflect the institutional framework of a given country to be of use toward determining its fiscal policy. The United Nations document "Reclassification of Government Expenditures and Receipts in Selected Countries" (ST/ECA/52) published in English in August 1958 and in Spanish in October 1958 shows how the basic concepts of classification presented in the Manual have already been adopted in a number of countries but with a considerable degree of flexibility. This document together with the Manual should aid in finding practicable solutions to problems of classification.

5. At the regional budget workshop held in September 1957 in Bangkok, it was recommended that the Secretariat prepare suggestions for a uniform system of reporting of budgetary data on a regional basis. It was realized, however, that such a reporting system would have to be rather simple to be of practical use for data collection. A draft public finance questionnaire was prepared in 1959 by the Secretariat of the Economic Commission for Asia and the Far East in collaboration with the Fiscal and Financial Branch of the Department of Economic and Social Affairs at Headquarters. While the questionnaire is essentially based on the classification schemes developed in the Manual, it simplifies them in several important respects. Emphasis is put on a consolidated statement covering the whole central government sector. The completion of the numerous subsidiary accounts which form part of the manual classification schemes is not required. The most important deviation from

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the Manual is probably with regard to the treatment of general government transactions. Here the draft questionnaire does not require imputations of items not recorded in the government accounts. Other simplifications refer to the basis of reporting transactions, the treatment of own-account production of capital goods, the treatment of contributions to government employees' pension funds etc. The draft questionnaire has been circulated to governments of the region for their comments and suggestions.

6. The third regional budget workshop is scheduled to be held in Bangkok-Manila in August/September 1960. The major emphasis there will be on problems of budget management, particularly on programme and performance budgeting, but the workshop will also discuss the progress made by the governments of the region in the field of budget reclassification and will have before it the draft public finance questionnaire together with the comments received from the governments.

7. It is further expected that a budget workshop will be held in 1961 for the countries of Africa which will discuss reclassification of government transactions on the basis of economic and functional criteria as well as programme and performance budgeting.

8. Considerable work in budget reclassification has been undertaken in recent years in a number of countries; the Manual and the Regional Budget Workshops were a contributing factor in this development. This reclassification work has resulted in a significant improvement in the reporting of government transactions. In Asia for instance the Government of India is now submitting at the budget time to the Legislature an "Economic Classification of the Budget". Similar classifications were prepared by the Ministries of Finance of Burma and Japan, the Budget Directorate of Viet-Nam and the Central Banks of Ceylon and of the Republic of Korea. In Austria the budget as well as the closed accounts contain an economic-functional cross classification of government transactions. The Netherlands' memorandum on States' finances and the Finnish economic survey are further examples of this type of presentation of budgetary data. Italy provides similar information in the joint annual economic survey of the Ministries of the Budget and the Treasury. The recent

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French budget reform has resulted in a new budgetary presentation which gives equal emphasis to economic as well as to functional criteria. In Latin America significant progress has been made in Chile, Colombia, Ecuador, Honduras and Venezuela. On the basis of these improvements it has been possible to revise a number of the country tables included in the public finance chapter of the United Nations Statistical Yearbook. Beginning with the 1958 edition, an economic classification supplemented by a functional classification of government expenditures is shown. Tables based on the new classification are now shown for Ghana, Honduras, Chile, Ecuador, Venezuela, Ceylon, India (Central Government), Republic of Korea, Austria, Finland, France, Italy, Netherlands, Norway, Sweden and New Zealand. As further improvements in this field are made, it is expected that an increasing number of country tables can be presented on the new basis.

B. Summary of Comments on "A Manual for Economic and Functional Classification of Government Transactions"

9. Replies from fifteen governments have thus far been received commenting on A Manual for Economic and Functional Classification of Government Transactions. They indicated general agreement that supplementary classifications of government transactions according to economic and functional criteria are highly desirable for purposes of formulation of economic and fiscal policies. In a number of these replies, reference was made to the work accomplished or in progress in supplementing conventional budget presentations with economic and functional classifications prepared along the lines developed in the Manual.
10. Various comments were concerned with the practical difficulties of providing the information in the classification system presented in the Manual, particularly with regard to the rather detailed economic classification, the number of subsidiary accounts covering trading and non-trading activities of the government, the use of imputations etc. In this connexion, it may be noted that it was not the expectation that countries would be in a position to implement completely all aspects of the classification schemes presented in the Manual. This is borne out by the results of the work on reclassification of government transactions undertaken in recent years in a number of countries.

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They confirm general agreement on underlying principles but also show wide variations in the scope of activities covered, the treatment of public enterprise activities and the methods of presentation adopted.

11. A number of the comments indicated that the Manual is frequently considered as a new international standard of reporting in the field of public finance. It may be noted that the primary purpose of the Manual is to assist governments in preparing economic and functional classifications of government transactions as a supplement to the information contained in the conventional budget documents and that it should not be considered as a new standard classification.

Differences with S.N.A. and scope of government sector

12. Comments were also received which pointed out the differences in concepts, definitions and in the system of accounts presented in the Manual as compared with those given in the United Nations "A System of National Accounts and Supporting Tables". Reference was made to the definition of the government sector in the Manual which embraces trading and production activities of the government as well as activities of a general government nature. This appeared to be in conflict with the treatment of the government sector in many of the existing systems of national accounting as well as in S.N.A. where the transactions of government enterprises are allocated to the enterprise sector.<sup>1/</sup>

13. Since the Manual presents an economic classification scheme (Table 16) which is equally applicable to trading and production activities and to general

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<sup>1/</sup> In reality there is no such conflict. The Manual does not purport to deal with government as a national accounting sector. Its main object is to facilitate the task of the government administrator and legislator in analysing the economic impact of the government transactions on the economy. In many countries, government budgets cover enterprise activities and transactions in financial assets and liabilities as well as transactions of a general government nature. Classification schemes as presented in the Manual therefore cover the whole field of government activities. The Manual also serves the useful function of providing building blocks for the construction of Account 5 (General Government) of SNA as well as the data required for some of the supplementary tables, in particular Table IX - General Government Revenue and Expenditure.

government activities, it was assumed in some of the replies that the gross transactions of general government agencies were to be consolidated with the gross transactions of government enterprises.<sup>2/</sup>

14. One reply made reference to the countries where state enterprises represent the dominant part of the economy and to many other countries where state enterprises represent a considerable share of their productive facilities. In these countries, it would not be practicable to include within the scope of the government sector government enterprise activities since this would result in the inclusion of the greatest part of the economy in the government sector. In another reply, the advantages of a narrower definition of the government sector were pointed out since the extent to which governments are engaged in production and trading activities varies from country to country. International comparisons would therefore best be limited to general government activities.

15. Some of the replies stressed the importance of independent public institutions which are outside of the government sector proper. One reply suggested the preparation of additional statements covering the most important aspects of the activities of independent public enterprises; independent public institutions playing an important role in certain fields such as education and public health should similarly be covered.

#### Need for a simplified economic classification

16. Some of the communications indicated that the economic classification of the Manual was considered too highly refined and to have been drafted without full consideration of the feasibility and of the cost of carrying out some of the refinements. In several of the replies, reference was made to the more immediate need of countries with less developed statistical programmes for a considerably simpler system, not involving imputed or constructed items not

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<sup>2/</sup> However, such a consolidation is not provided for in the Manual. In the consolidated current account (Table 22a) only the net trading profits resulting from the current transactions of government enterprises are included. In the consolidated capital account (Table 22b), net fixed capital formation of trading enterprises and of general government agencies are shown under separate headings.

directly derivable from official accounts. In one reply it was suggested that, in recognition of the wide variety between countries in statistical resources and experience, schemes of varying complexity should be prepared from which each country could make its choice.

#### Emphasis on central government transactions

17. One reply from a country with a federal system of government and whose provincial and local expenditures are financed by shared taxes with government authorities at these levels considered it doubtful whether it is possible by a "suitable analysis of central government transactions to form an approximate picture of the activities of all government bodies".

#### The basis of recording transactions

18. One country did not favour, for practical reasons, the recording on an accrual basis of transactions of general government agencies since in most instances these accounts are kept on a cash basis. Another reply referred to the reporting basis of receipts from taxes. In most budget accounts, receipts from taxes are shown on a cash basis but sometimes these payments refer to taxes assessed on incomes earned one or two years earlier. Various possibilities for solving this problem were pointed out.

#### Imputations

19. Several countries questioned the advisability of introducing in the economic classification imputed or calculated items, particularly when applied to the activities of general government agencies. Reference was made in this connexion to the provision for depreciation of fixed capital owned, the imputed cost of capital owned, the value of goods and services provided free by one government agency to another, the accruing government liabilities in respect of pensions, the calculation of the net change in working stocks. Three countries commented that such imputations cannot easily be introduced in a system of accounts covering general government activities and one reply stated that the imputation of the yield on capital owned by the government was premature in the light of the present state of theoretical insight and the nature of the data available.

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Comments on other items of the economic classification

20. Two countries questioned the exclusion from capital formation of office buildings and office equipment serving military purposes. One reply pointed to the difficulties of segregating expenditure on new capital formation from purchases of existing assets and other comments found the treatment of pension contribution for government employees too complex. One country had reservations on the proposal to classify the current surplus or losses of government enterprises into profits proper, indirect taxes, or subsidies, partly because of gaps in the primary data but chiefly because of lack of objective criteria for doing so. In one reply, the different nature between regulatory charges and other sales and non-regulatory charges was emphasized. In the Manual, both regulatory and non-regulatory charges are deducted from gross current expenditure on goods and services to arrive at net current expenditure.

21. One reply referred to the inclusion of transfers in kind to the income account of households since in S.N.A. the purchases of such goods and services should be introduced as an expenditure of the sector which has initiative in determining the level of this kind of expenditure.<sup>3/</sup> Other comments suggested supplementary accounts for transactions in financial claims in which long-term borrowings should be shown on a gross basis.

Functional classification

22. Several countries questioned the usefulness of broad functional groupings such as general services, community services, social services and economic services. The disadvantage of such broad groupings is that they are usually not clearly definable and that they often combine matters which do not have much in common. Specifically the division of transportation services among community services (roads and railways) and economic services (ports and harbours) was questioned as well as the general usefulness of the category entitled "community services". In this connexion, reference may be made to the reports of

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<sup>3/</sup> In the revised (1959) edition of S.N.A. this treatment has been altered to the effect that purchases should be entered as an expenditure of the sector (government or households) which actually makes the purchase.



the second budget workshop in the ECAFE region held in 1957 and of the South American budget workshop held in 1959 where it was suggested to abolish the category "community services" and to include "roads and waterways" together with other transportation services under "economic services". It was further suggested to distribute the functions included under "other services" of "community services" between "general services" and "social services". One reply suggested that a functional classification should be a fairly pragmatic scheme which cannot be developed with a rigorous logic like that applied to the economic classification and should allow for variations in accordance with the relative importance these specific activities have in each country. In one reply, preference was expressed for the inclusion of all administrative overhead expenses under the heading of "general administration" instead of classifying administrative overheads under the various functions to which they relate, e.g., education, public health etc.

Possible recommendations for future action

23. The Commission may wish to recommend:

1. That the Manual for Economic and Functional Classification of Government Transactions should be considered as a standard work of reference for guiding future reclassification work in member countries. At the same time it may draw attention to the fact that the classification schemes and the pattern of accounts presented in the Manual should in no way be considered normative but be applied with a considerable degree of flexibility taking into account the specific needs of each country. It may wish to request the Secretary-General to circulate to the national statistical services the summary of the comments received from member countries together with the summary records of the present session of the Commission. It may further wish to refer in this connexion to the document "Reclassification of Government Expenditures and Receipts in Selected Countries" in which the experiences of a number of countries in applying economic and functional classifications of government accounts have been summarized.

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2. That the Secretary-General develop some simplified schemes of economic and functional classification of government transactions, with emphasis on the particular requirements of the economically less developed countries.

3. That the Secretary-General submit to the twelfth session of the Statistical Commission a progress report on this subject.

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