



COFOG revision

Eurostat perspective

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COFOG at Eurostat

- Eurostat collects COFOG data from all EU/EFTA countries at group level.
 - Long time series (since 1995)
 - Data for general government and its subsectors
- Data is collected for total expenditure, its components, as well as final consumption expenditure (P.31/P.32).
 - Complete link to the definition of individual and collective consumption as required by the SNA (and ESA).
 - Coherence of the classification with SNA/ESA methodology essential
 - Notably: coherence with aggregates requires classification **by main purpose**
- COFOG collections were expanded since 2007
- Dedicated COFOG TF (expert meeting) comprising compilers from EU/EFTA countries
 - Developed [COFOG manual](#) as outcome on discussions on practical application of COFOG
 - Case studies, notes on methodological issues, correspondence with satellite accounts, correspondence with economic transactions, etc.

Background (1)

- Report of the Committee of Experts on International Statistical Classifications to the 53rd session of the Statistical Commission (E/CN.3/2022/26), Section V. Future work of the Committee of Experts on International Statistical Classifications states:
 - 20. The Committee of Experts will continue to expand its areas of interest to include wider statistical classification matters and to work on new and innovative approaches for the development and maintenance of international statistical classifications in an E/CN.3/2022/26 21-18415 5/5 effort to rationalize and reduce the time and cost associated with the cyclical review process. **In addition, the Committee of Experts is considering initiating a review of the Classification of the Functions of Government in the light of the recent revision of the Classification of Individual Consumption According to Purpose.**
- Report on the 53rd session of the Statistical Commission (28 February – 2 March and 4 March 2022 – Economic and Social Council, Official Records, 2022, Supplement No. 4 (E/2022/24-E/CN.3/2022/41). 53/125 International statistical classifications:
 - (i) **Recommended the revision of the Classification of the Functions of Government** and an assessment of whether changes are required in the other classifications of expenditure according to purpose, and the presentation of a proposed work programme for the update, to be considered by the Commission at its fifty-fourth session;

Background (2)

- Revision of the Classification of Individual Consumption According to Purpose (COICOP) 2018 (ST/ESA/STAT/SER.M/99)
 - The first classification under the name COICOP was adopted by the United Nations Statistical Commission in **March 1999**, together with the other three functional classifications of the SNA: the Classification of the Purposes of Non-Profit Institutions Serving Households (COPNI), **the Classification of the Functions of Government (COFOG)**, and the Classification of the Outlays of Producers According to Purpose (COPP)
 - COICOP 1999 classifies individual consumption into 14 divisions: Divisions 01 to 12 cover individual consumption expenditure of households; Division 13 covers individual expenditure of Non-Profit Institutions Serving Households (NPISHs); and **Division 14 covers the individual consumption expenditure of general government.**

Background (3)

- The effect on the direct relation between COICOP and COFOG after the 2018 revision of COICOP was merely a “renumbering” of COICOP Division 14 to Division 15. No conceptual revisions were introduced in the direct relationship between the two classifications. → should not per se trigger a COFOG revision
- COICOP 2018 IV. Relationships to other classifications
 -85. The purpose breakdowns within Divisions 14 and 15 of COICOP 2018 replicate the purposes in the classifications for NPISH in COPNI and general government in COFOG. Thus, once the consumption expenditures of NPISHs and general government have been classified according to COPNI and COFOG, the individual consumption expenditures in these two classifications can be transferred directly into Divisions 14 and 15 of COICOP 2018.
- COICOP 2018, Annex 2: Main changes by division:
 - Division 14 Individual consumption expenditure of non-profit institutions serving households and Division 15 Individual consumption of general government

The scope of this revision covered only Divisions 01 to 12 of the COICOP 1999 (01 to 13 of COICOP 2018), therefore former Divisions 13 and 14 remained unchanged at the group and class level. The divisions were renumbered to Division 14 and Division 15. The subclass level was added for consistency with the rest of the classification but subclasses are identical to the corresponding classes.

Relation with Coicop necessitating COFOG review?

- The topic of COFOG revision had already come up in the context of the recent COICOP revision, notably triggered by the **ISCED 2011** revision for **early childhood education**.
 - At the time, it was considered that no COFOG revision was needed on the back of COICOP.
 - View strongly endorsed by the Eurostat COFOG TF
 - Coicop revisions implemented would not have any material impact on COFOG. This is because even if the ISCED 2011 classification were to be adopted for COFOG, the COFOG TF considered that in any case child care for children aged 0-2 years old is most appropriately classified in group 10.4 family and children as part of social protection rather than in the education division.
 - Classification by main purpose
 - Comparability with our statistics on social protection.
- Accordingly, it would be better not to revise COFOG.
- As noted in previous slides, no direct inconsistency between Coicop and COFOG arises

Ongoing 2008 SNA update

- The ongoing SNA review does not create a necessity to revise COFOG
 - Any such proposals, notably from Wellbeing and Sustainability Task Team, have been withdrawn.
 - COFOG classification is embedded in the ESA 2010 regulation (549/2013); and that both ESA 2010 (paragraphs 3.104 to 3.106) and the SNA 08 (paragraph 9.100) determine the COFOG classification (including the name of COFOG group) as a basis of the allocation of government final consumption expenditure into individual and collective consumption.
 - Any change in COFOG affecting this affects the core of National Accounts possibly not in tandem with the pace of the 2008 SNA update.
 - It will only be “visible” in Eurostat COFOG data, compiled by transaction, and including for final consumption.
 - Triggering need for coordinated benchmark revisions.

Some shortcomings in the COFOG classification

- The descriptions often not geared towards national accounts (rather at IMF GFSM) compilers despite the need to be consistent with national accounts, partly mitigated by Eurostat COFOG manual/ COFOG TF.
- Difficulty of assigning R&D expenditure to the different COFOG divisions (major practical difficulties which require perpetual estimations rather than reliance on more robust source data), specific difficulties in dealing with R&D asset stocks.
- Assigning legal aid.
- Irrelevance of group 06.4 street lighting (and difficulties to separate expenditure from other collective expenditure).

Proposed way forward

- None of the shortcomings we see in COFOG seem important enough to trigger a revision at this point: **no action needed**.
 - In case it is decided to **nonetheless** update COFOG, in order to ensure coherence, a **limited review** according to the 4 points of the previous slide is proposed.
 - Eurostat COFOG TF should be closely involved as it brings together the relevant expert knowledge and practical experience with COFOG and COFOG group level data.
 - Any changes to the descriptions should take on board the existing body of work of the Eurostat COFOG TF.
 - Such a **review** should be closely linked with other work on government finance statistics rather than being triggered by work on household actual final consumption. Why? Several shortcomings could only be resolved by more comprehensive considerations, e.g. on:
 - R&D provided free of charge
 - Harmonisation on the distinction between taxes and services – affecting final consumption.
 - Harmonisation on what is considered a financial transaction and a non-financial one.
- A revision should be considered within a GFS Task Team rather than one limited to COFOG.

Thank you

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