

## Government expenditure by function

### Years 1990-2009

ISTAT has made available estimates of General Government expenditure at current prices by function for 1990-2009.<sup>1</sup>

The classification of **government expenditure by function** used in national accounts refers to the COFOG classification, which is structured in three levels of analysis: the first level is comprised of ten divisions, each subdivided into groups, which are in turn broken down into classes. Expenditures broken down by measures and services of a collective nature are the subject of the first six divisions, while those of an individual nature are included in the rest of the divisions.

To simplify analysis of expenditure by function, the ten first-level groupings as provided for by the COFOG classification have been aggregated into six items (Figure 1):

1. Traditional functions (general public services, defence, public order and safety);
2. Economic affairs (agriculture, manufacturing, transport, communications, etc.);
3. Environment protection, housing and community amenities;
4. Health;
5. Recreation, culture and education;
6. Social protection (welfare and assistance).

The part accounted for by traditional Functions, which over the period averaged 25.9 per cent of overall expenditure, showed a declining trend between 2000 and 2009 due to a progressive reduction in interest payable, classified entirely under general services.<sup>2</sup> Specifically, general services accounted for around 73 per cent, defence for 11 per cent, and public order and safety the remaining 16 per cent.

With regard to Economic affairs the trend in expenditure in absolute terms was upward and influenced by operations of an extraordinary nature. The particularly low level of expenditure recorded in 2000 was actually due to the recording of receipts (with a minus sign, being revenue) from the sale of UMTS licences.<sup>3</sup> The growth recorded during the subsequent period, 2001-2005, was largely connected with capital transfers to the Ferrovie dello Stato (FS) group, while the 2006 level was influenced by extraordinary operations relating to the writing-off of State debts in TAV (a company of the FS group) and the retrocession to a securitisation company of social security contributions receivable from farm workers. Finally, the 2007 level was affected by the repayment of debt incurred by the Prime Minister's Office for publishing and VAT refunds on company vehicles following a ruling by the European Court of Justice requested on a lump-sum basis. In 2009 the increase of the expense in this function was also due to operations of extraordinary reimbursement to enterprises of higher taxes paid in previous years.

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<sup>1</sup> The estimates are consistent with the analyses published in *Statistica in breve, Conti ed aggregati economici delle Amministrazioni pubbliche* on 01st July 2009 and updated in *Statistica in breve, Indebitamento netto e debito delle AP (2004-2009)* on 22nd October 2010.

<sup>2</sup> On average, approximately 97 per cent of expenditure on interest payable is attributed to general services provided by Governments in connection with the costs of servicing the national debt.

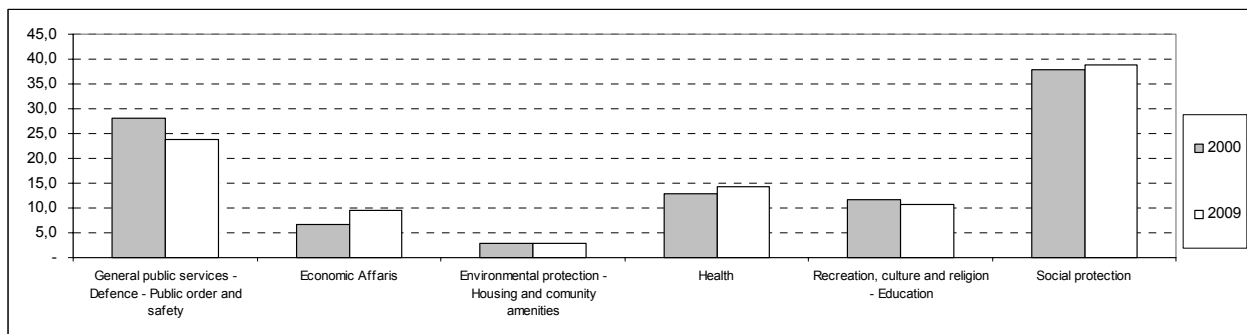
<sup>3</sup> It is pointed out that this operation, according to ESA95 principles, is classified as an acquisition of non-financial assets not produced in connection with the functional group of communications, forming part of the economic affairs division. As the operation in question is a sale it is recorded as a negative entry, as it represents a reduction in the stock of assets (disinvestment).

Functions relating to environment protection, housing and community amenities recorded a moderately rising trend over the period in question, with the exception of 2002. In this case too a number of extraordinary measures taken by Social security institutions had a relevance and modified the overall trend, such as the partial divestment of property through various means (direct sales in 2001 and 2002 and disposal through securitisation in 2002).

The final three groupings (Health, Culture and Social Protection), which correspond to functions of a mainly individual nature, display sustained growth trends, in particular for health and social protection. Indeed, during the period in question expenditure for the latter two functions increased by more than a third in absolute value, from around 279 billion euro in 2000 to 423 billion in 2009. In percentage terms, expenditure on health and social protection rose from 49.6 per cent of total public expenditure in 2000 to 53 per cent in 2009. The main component of expenditure on social protection was *social security benefits in cash*, whose growth was brought on by the initial effects of the economic recession, that led to a significant increase in the use of social protection instruments starting from the second half of 2008.

In contrast, the percentage of expenditure on education and on recreation and culture showed a slight amount of variability during the period in question (around an average of 11.1 per cent), as 70 per cent of this expenditure was accounted for by salaries, therefore primarily reflecting trends in contract renewals, especially in the school sector.

**Figure1 – Government expenditure at current prices by function – 2000-2009 (percentage composition)**



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