



EUROPEAN COMMISSION
EUROSTAT

Directorate D: Government Finance Statistics (GFS)
Unit D-3: Excessive Deficit Procedure (EDP) 2

Luxembourg,

FINAL FINDINGS

EDP dialogue visit to Cyprus

11 – 12 November 2021

Executive Summary

Eurostat carried out an EDP dialogue visit to Cyprus, through videoconference, on 11 – 12 November 2021 as part of its regular visits to Member States. The purpose of the meeting was to review the existing institutional responsibilities as regards the compilation of EDP statistics and government accounts, to review the implementation of the accrual principle, to examine the classification of some institutional units and to review the recording of specific transactions, in particular in the context of the COVID-19 crisis.

Eurostat reviewed and took note of the institutional arrangements for EDP reporting. CYSTAT informed about the creation of a new methodological unit and about the plans to produce an inventory of the compilation procedures of all processes in the National Accounts – Government Finance Statistics division. In the context of the discussions on quality management framework, audit and internal control arrangements, it was observed that no major change has taken place since the previous dialogue visit. CYSTAT emphasized that the working balance of the EDP table 2A, which comes from the Financial Report of the National Treasury, never changes after being published and audited by the Audit Office of the Republic.

There were detailed discussions on the data sources and compilation procedures, especially for the extra-budgetary units and the municipalities. Some semi-government organisations do not produce financial statements, but instead provide CYSTAT with other data by email. Such unaudited data is object of frequent revisions. Similar difficulties exist regarding source data for local governments. Three municipalities were identified which, despite being obliged by law, do not provide financial statements. For these, CYSTAT has to use monthly reports, which are on a cash basis. The development of the new computerized Enterprise Resource Planning System (ERP) was also discussed. Its implementation is delayed compared to the information provided in the last EDP dialogue visit. It is foreseen that ERP will replace FIMAS on 31 December 2022. The financial statements in ERP will be prepared on an IPSAS basis. CYSTAT informed that they were planning to use budget execution data on a cash basis for the working balance of EDP and GFS compilation and to adjust data to accrual.

The progress achieved by the Cypriot statistical authorities on the open action points from the previous EDP dialogue visit, which took place in May 2019, was also discussed. Open action points were discussed under each related appropriate agenda items.

Concerning the analysis of the EDP tables, (follow up of the October 2021 EDP notification) some action points were issued. During CYSTAT's detailed presentation of the compilation of 2020 EDP, the missed consolidation of the EIB loan, which is transiting through the State accounts to the local government, was mentioned. Eurostat recalled the reconciliation exercise between the single government account in the Central Bank of Cyprus and the related accounts in FIMAS, done as a follow up of the 2017 mission. CYSTAT will carry out a similar exercise for the local government. The debt of Cyprus Organisation for Storage and Management of Oil

Stocks (COSMOS) was also discussed and its correct recording and consolidation was agreed. While examining the compilation of data of some extra-budgetary funds and semi-government organisations, some issues were identified, which need to be investigated and clarified.

In the context of the discussion concerning the delimitation of the general government sector, estimates of the consumption of fixed capital were discussed. The classification of some specific units such as the *Cyprus Certification Company, the Grain commission, Forest industries and the Sewage disposal boards* (which are all currently classified in S.11) was discussed. Eurostat requested checks to be done on the sector classification of all of them. The classification of the *Sewage disposal boards* was discussed in-depth, and it was concluded by Eurostat that, for a number of reasons, their reclassification into the general government (S.13) was justified.

The Housing Finance Corporation (classified in S.12) and the *Cyprus Land Development Corporation* (classified in S.11) were also discussed. It was agreed that the sector classification of these units should remain unchanged, but the monitoring needs to be continued.

As regards the implementation of the accrual principle, attention was focused on the EU flows and military expenditure as well as on the TAC of social contributions and the use of other accounts for extra-budgetary units. It was identified that data on EU flows in the Annex II provided by CYSTAT before the EDP dialogue visit and in the ESA table 2 were not harmonised and that the tables should be reviewed. CYSTAT records a part of EU grants in national accounts on a cash basis. Following an extensive discussion during the visit, CYSTAT will need to investigate and provide more detailed information on EU grant flows and recording. Finally, the use of the EU financial instruments and their recording was discussed.

Although the recording of military expenditure in Cyprus' EDP is on accrual basis, some investigations and checks should be undertaken by CYSTAT. These concern the delivery of military equipment from local suppliers, the nature of the loan asset related to military equipment and COFOG data on military expenditure.

Participants discussed the main COVID-19 related measures implemented by government and their recording in government deficit and debt. The main measures discussed were: tax deferrals, the loan granted to Hermes Airports Ltd and SURE loans.

The EDP Questionnaire table on the Recovery and Resilience Facility (RRF) was provided for the first time during the October 2021 EDP notification. Eurostat reminded of the main rules for the recording of the RRF flows and inquired about the availability of the source data needed to fill in the RRF table.

KEDIPES (Cyprus Asset Management Company Ltd.) data were discussed in detail focusing on *KEDIPES'* financial statements, which are still not regularly produced and audited, and on the recording of some financial (sale of equities) and non-financial (interest payable) transactions.

Furthermore, the planned *KEDIPES*' operations were presented by a representative of *KEDIPES*. Following the discussions, it was agreed that both Eurostat and CYSTAT will further examine the accounts of *KEDIPES*, in order to ensure a correct recording of transactions in government accounts.

The discussion on the reform of National Health System focused on the recording of the transactions between the Health Insurance Organisation (HIO) and other entities which collect and transfer social contributions to the HIO. A correct reporting of other accounts receivable and payable for social contributions in the EDP Questionnaire tables 5 and 4 was agreed.

Other relevant issues discussed included: guarantees, debt assumptions, debt cancellations and debt write-offs, capital injections, dividends and super dividends, PPPs and concessions. The newest concessions were analysed in detail and cases where rent of land rather than a concession should be recorded were identified.

Finally, the recording of emission trading permits was discussed with the aim to agree on a change from the current cash recording to the accrual method. CYSTAT investigated the ETS data and decided to start using the time adjusted cash method with a one-year time lag for the recording of ETS data in the EDP and GFS statistics.

Eurostat highly appreciated the quality of the information provided by the Cypriot statistical authorities prior to the mission and thanked the Cypriot statistical authorities for the transparency and the detailed explanations provided during the mission.

Final findings

Introduction

In accordance with article 11(1) of Council Regulation (EC) No 479/2009 of 25 May 2009, as amended, on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community, Eurostat carried out an EDP dialogue visit (in the form of a video conference) to Cyprus on 11 – 12 November 2021. The agenda of the meeting is annexed to this report (Annex 1).

Eurostat was represented by Mr Luca Ascoli (director, Directorate D “Government Finance Statistics (GFS)”), Mr Jukka Jalava (head of unit, Unit D3 “Excessive Deficit Procedure 2”), Ms Olga Leszczynska-Luberek (Unit D1), Ms Laura Wahrig (Unit D1), Mr Stylianos Pantazidis (Unit D3) and Ms Gedmine Joniune (Unit D3). Representatives of the Directorate General for Economic and Financial Affairs (DG ECFIN) and of the European Central Bank (ECB) also participated in the meeting as observers. Cyprus was represented by the Statistical Service of Cyprus (CYSTAT), the Central Bank of Cyprus and the Ministry of Finance of Cyprus. Representatives of the Treasury of the Republic of Cyprus, KEDIPES and Health Insurance Organisation participated in the meeting for the relevant agenda items. A list of the meeting’s attendees is annexed to this report (Annex 2).

The previous Eurostat EDP dialogue visit to Cyprus had taken place on 23 – 24 May 2019.

The overall purpose of this EDP dialogue visit was to ensure that the provisions of the European System of National and Regional Accounts (ESA 2010), of Eurostat's Manual on Government Deficit and Debt (MGDD 2019), as well as that of Eurostat's decisions, are duly implemented as regards the production of Cyprus EDP and GFS data.

The aims of the visit were to review data sources and compilation procedures for the EDP/GFS data, the availability of data for extra budgetary and semi-government organizations, as well as for local government, to discuss the issue relating to the compilation of debt following from the EDP October 2021 notification, to review KEDIPES’ (a defeasance structure classified in the general government) accounts and its recording in the national accounts, to analyse the recording of transactions of the National Health Reform, to discuss the recording of emission trading permits and, finally, to review the reporting of EDP Questionnaire tables.

With regard to procedural arrangements, the *Main conclusions and action points* were sent by Eurostat to the Cypriot authorities for review, shortly after the meeting¹. Then a more comprehensive description of *Provisional findings* from the EDP dialogue visit was sent to

¹ The *Main Conclusions and Action Points* were sent to CYSTAT on 24 November 2021.

CYSTAT for comments. The *Final findings* is hereby sent to CYSTAT and to the Economic and Financial Committee (EFC) and published on the website of Eurostat.

Eurostat greatly appreciated the co-operation and transparency demonstrated by the statistical authorities of Cyprus during the meeting, as well as the information provided before and during the dialogue visit.

1. Statistical institutional issues

The general government sector (S.13) is composed of three subsectors: central government (S.1311), local government (S.1313) and social security funds (S.1314).

The central government subsector includes 15 central budgetary units (ministries, constitutional powers and constitutional services), 21 extra-budgetary funds and 30 semi-government organisations that are included inside central government based on the results of the market/non-market test and the qualitative criteria. The State Health Service Organisation (SHSO), which was established in 2017 and manages all the public hospitals (9 hospitals and 38 health centres), is a part of the central government.

The local government subsector includes 39 municipalities (nine² of which occupied since the Turkish invasion in 1974) and 349 Community Boards.

The social security funds subsector includes the Health Insurance Organisation and six social security funds managed by the Ministry of Labour, Welfare and Social Insurance.

1.1. Review of institutional responsibilities in the framework of the EDP data reporting and government finance statistics compilation

Institutional cooperation and EDP processes

Introduction

The legal basis for the compilation of GFS and EDP data in Cyprus are:

- the Regulation (EU) No. 549/2013 of the European Parliament and of the Council and the Commission Regulation (EU) No. 220/2014 amending Council Regulation (EC) No 479/2009;
- the *Fiscal Responsibility and Budgetary Framework Law* (FRBF Law – *Νόμος που Προνοεί Περί της Δημοσιονομικής Ευθύνης και του Δημοσιονομικού Πλαισίου, Ν. 20(Ι) 2014*), which provides the framework for the promotion of fiscal responsibility among all entities comprising the general government.

The Government Finance Statistics (GFS) Section, which is responsible for the compilation and transmission of the EDP notification and GFS data (quarterly and annual), is a part of the National Accounts and Government Finance Statistics Division of CYSTAT (NA-GFS). This Division, headed by Mr Vasilis Chailos, includes 16 persons, of which two full-time staff members and three part-time staff members working in the GFS/EDP Section. The NA-GFS Division has been restructured during recent years with the aim of unifying the activities of the

² These municipalities are not in the data reported.

GFS team with those of national accountants. Currently, the NA-GFS Division is divided into 3 main teams: the first team is Sector Accounts – GFS Statistics, the second team is Synthesis of Annual NA & GFS – Methodology Unit - Quality Assessment – Financial Accounts and the third team is National Accounts – Main Aggregates. The Director of CYSTAT is the person who gives the final approval/authorisation for EDP data transmission to Eurostat.

A Memorandum of Understanding for the statistical cooperation between the Fiscal Council, CYSTAT, Ministry of Finance (MoF), the Central Bank of Cyprus and the University of Cyprus as regards public finance statistics and public accounts was signed on 10 June 2014.

Regular meetings are held between the NA-GFS Division and the MoF in order to reconcile the financial and non-financial GFS. As a result of such meetings, intermediate working tables (3B1; 3B2 and the table on public debt) are prepared and provided to Eurostat. Moreover, CYSTAT, along with the MoF, takes part in the National Treasury's working groups regarding public finances.

The main data providers for EDP and GFS compilation are the Treasury of the Republic of Cyprus (providing the financial statements of the State budget, the cash transactions of budgetary, social security and extra budgetary funds via FIMAS, and the reports of local government and semi-government organisations), the State Health Services Organisation (the financial statements of SHSO), the Health Insurance Organisation (the financial statements of HIO), the Ministry of Labour, Welfare and Social Insurance (the annual financial reports for the six social security funds) and KEDIPES (KEDIPES' accounts).

Discussion and methodological analysis

CYSTAT presented the information concerning changes in institutional arrangements. It was emphasised that the main goal was to reinforce the GFS team and to unify it with the NA sector. The measures to achieve this goal have been: the creation of the methodology unit, the development of an inventory of the compilation procedures for all tasks in NA-GFS division, the introduction of validation checks within the working files. Furthermore, a common database for the NA and GFS divisions was developed in order to facilitate the production of data and ensure the secure storage of GFS and NA data. Finally, CYSTAT continues and enhances the existing good cooperation with MoF, CBC, Treasury of the Republic of Cyprus and other organisations (data providers).

CYSTAT confirmed that the resources assigned to EDP functions are sufficient and the inventory of the compilation procedures will be very useful for the training of the new staff.

Concerning the formalisation of the existing cooperation with the other institutions (KEDIPES, SHSO), CYSTAT emphasized that the communication with them was excellent and there was no need to formalise it. CYSTAT thinks that there was no need to update the Memorandum of

Understanding for the statistical cooperation, as no changes in the responsibilities occurred since 2014.

Findings and conclusions

Action point 2021/1: CYSTAT will provide Eurostat with the Inventory of the compilation procedures, which is under preparation and will be internally used by CYSTAT with the aim to formalise and reinforce the compilation of EDP and GFS statistics.

Deadline: when the inventory will be available.

Quality management framework, audit and internal control arrangements

Introduction

The quality management framework is safeguarded by the FRBF Law.

CYSTAT's procedures ensure the quality of the data provided in EDP tables, on a monthly³ and annual basis:

- reconciliation tables are provided by the Treasury of the Republic of Cyprus on a quarterly basis, which allows CYSTAT to double check transactions but also provide the starting line (working balance) figures;
- the budget execution is monitored through FIMAS: all transactions that enter FIMAS undergo internal quality and consistency checks. The system of data collection and processing is consistent with the standards set out by the Accountant General;
- the budget execution statements prepared by the Treasury of the Republic of Cyprus every month provide the starting line for the monthly EDP table 2A as well as the annual EDP table 2A. The financial data included in these statements provide for the cross check between the financial and the non-financial accounts.

The accounts of all units included in the general government sector are audited by internal and external auditors as well as by the Auditor General of the Republic of Cyprus: all flows and all accounts of all the units are audited upon submission of their annual reports to the Auditor General. The Auditor General of the Republic is an independent officer appointed by the President of the Republic and is responsible for the audit of central government, public organisations, local authorities and other public bodies and funds. The Annual Report of the Auditor General is submitted to the President of the Republic during the first half of December every year, who in turn submits it to Parliament.

³ According to Troika obligations under the Technical Memorandum of Understanding (TMU) and the Post-Programme Surveillance (PPS), CYSTAT compiles monthly accounts. TMU and PPS demand monthly reporting by means of EDP tables and other specialised reports (projections and targets that are prepared by the MOF) 27 days after the end of every reference month.

The main laws which enable the auditing of financial statements are the following:

- <...all accounts of moneys and other assets administered, and of liabilities incurred, by or under the authority of the Republic...> are audited according to the Constitution of the Republic of Cyprus (Part 6, Chapter 2, Article 116);
- The financial statements of Semi-Government organisations are audited according to the Financial Audit of Statutory Bodies Laws of 1983 and 1984 (Nos. 40/83 and 73/84);
- The financial statements of local authorities are audited according to the Municipalities Laws 1985 to 1997 local authorities Law No 86(I)/99.

Discussion and methodological analysis

Eurostat repeated and emphasized the importance of the implementation of the four-eye principle at all compilation stages seeking to avoid mistakes like omissions, which were identified during the last EDP notifications.

Eurostat enquired about when the Parliament usually approves the Financial Report of the Treasury of the Republic of Cyprus, as the Annual Report of the General Auditor for the year t is prepared and submitted to the President of the Republic only during the first half of December $t+1$. CYSTAT clarified that the Financial Report for the year t is usually approved by the Parliament on January $t+1$ and published at the end of February or at the beginning of March $t+1$. The working balance of the EDP table 2A never changes after being audited and published. In addition, CYSTAT assured that the reports of the Audit Office of the Republic of Cyprus are useful and CYSTAT is studying them for the statistical proposes.

1.2. Data sources and revision policy, EDP Inventory

1.2.1. Changes in data sources and revision policy

Introduction

The main data sources for EDP and GFS compilation remain the same. The Treasury of the Republic of Cyprus provides cash transactions via FIMAS for budgetary, social security and extra-budgetary funds transactions. Monthly reports on local governments and semi-government organisations' transactions are also collected and provided to CYSTAT by the Treasury of the Republic of Cyprus.

The online accounting database system of the Treasury of the Republic of Cyprus, FIMAS, records all transactions of the State on a daily basis. CYSTAT has full access to FIMAS and CYSTAT is accessing FIMAS every month to obtain all data in order to compile monthly accounts for the general government and EDP tables on a monthly basis.

The main data sources for compilation of accounts for **State budget** are the financial statements

(the Treasury of the Republic of Cyprus' Annual Report) and the State Budget reports (data from FIMAS).

The data sources for the compilation of accounts for **extra-budgetary accounts** (which comprises the extra-budgetary funds and semi-government organizations) are the FIMAS reports or the monthly budget execution reports, the financial statements and other data sources which are received directly from the organisations, when the financial statements are not available and mainly concern the monthly budget execution. These last data are not audited.

The main data sources for the compilation of accounts for **local government** are the Budget reports (the monthly revenue and expenditure reports on a cash basis provided by the Treasury of the Republic of Cyprus basis) and the financial statements (after the end of the fiscal year, municipalities submit to MoF their audited financial reports, which are used to compile the final annual results of the local government sub-sector).

Finally, the main data sources for the compilation of accounts for **social security funds** are Budget reports and the financial statements, which are on an accrual and non-consolidated basis.

Discussion and methodological analysis

Firstly, Eurostat focused on the data sources for extra-budgetary units. CYSTAT confirmed that, despite deadlines defined by the law, some semi-government organisations do not produce and do not provide to CYSTAT the financial statements. This is the reason why CYSTAT uses other data for the EDP and GFS statistics, received by email from above mentioned organisations. Such data is not audited and is the object of frequent revisions.

Discussions on the data sources for the local government started from the issue concerning the estimation of other accounts receivable and payable. CYSTAT explained that they use monthly local government data for April EDP notifications. Municipalities should report data on an accrual basis, however, as they have only 20 days to provide the reports, CYSTAT assumes that the data is on cash basis. Monthly reports include information on revenue and expenditure which is used for the calculation of B.9. In addition, monthly reports have information on deposits and loans. According to CYSTAT, other accounts receivable and payable were estimated based on the previous year. CYSTAT however confirmed that the discrepancy was zero for local government data in the April EDP notification. Eurostat considered not appropriate to record other accounts receivable and payable if revenue and expenditure were on a cash basis in the reports of municipalities and the April non-financial compilation and the financial transactions reported included only F.2 and F.4. Thus, CYSTAT should investigate the data sources (notably for the coherence of F.2 and F.4 with money and banking statistics) and adapt compilation procedures (eliminate the artificial F.8 which in fact serves to hide the discrepancy) in order to ensure a proper recording of local government accounts in the EDP tables of the April

notification. The working balance for the April notification needs to be clarified regarding whether it is on accrual or on cash.

For the October EDP notification CYSTAT uses the financial statements of municipalities in order to calculate the local government data. However, there are three municipalities which did not provide the audited financial statements during the last two-three years. Thus, CYSTAT uses only monthly reports of these municipalities to produce EDP and GFS data for the October EDP notification.

CYSTAT informed that there is a plan from the Union of Cyprus Municipalities to introduce a new project, called EVAGORAS. It is the creation of an integrated information system of municipalities. It concerns the digital transformation of municipalities with the aim to improve the internal administration procedures and the quality of services provided. A project started in 2021 and it is foreseen to be operational in September 2023. This project provides for the digitalisation of the: financial management of the administration services, budget revenue management, technical services and public health and waste collection. Thirty municipalities will be divided into seven groups, thus it will be easier to monitor the data of municipalities. The first data should be available as of April 2024. CYSTAT will keep Eurostat informed about the developments of this project.

Discussions took place on data sources for social security funds and on the usually significant revisions of HIO and SHSO data for the October EDP notification. CYSTAT informed that, recently, they received the new draft financial statement of HIO and that the 2020 data of HIO will be significantly revised again due to the obligations towards SHSO (around 17 million). The reason for this revision is the fact that HIO considers that the payments provided for services during the COVID-19 pandemic are not their own obligations. It was decided that such obligations should be assigned to the State, thus the expenditure recorded in the HIO's financial statements will be removed and reported as a capital transfer from the State to the SHSO.

Eurostat enquired and CYSTAT confirmed that the Social Insurance Fund, one of the six existing funds (part of the subsector S.1314), collects the social contributions.

Findings and conclusions

Action point 2021/2

Eurostat invites CYSTAT to use the financial statements instead of "Other" data sources (data received from the units, when financial statements are not available) of Semi-Government organisations for the compilation of EDP and GFS statistics in every EDP October notification.

Deadline: continuous, starting with the October 2022 EDP notification.

Action point 2021/3

Eurostat expects the use of financial statements of all municipalities for the compilation of EDP and GFS statistics in every October EDP notification and urges CYSTAT to collect the missing financial statements of Strovolos municipality, Aglantzia municipality and Ayia Napa municipality in order to ensure the exhaustiveness of the data on government debt.

Deadline: continuous, starting with the October 2022 EDP notification.

Revision policy

Introduction

Data revisions in Cyprus' EDP and GFS are made due to the actual figures (on an accrual basis) derived from the final audited financial reports/accounts of semi-government organisations, local authorities and social security funds.

During the three last notifications, CYSTAT provided revision notes explaining the major revisions. This fulfilled action point 8 from the 2019 EDP dialogue visit.

In practice, during the last 3 notifications, the main reasons for revisions indicated in the EDP Questionnaire table 1.1.2 were the following:

- Updated data sources - provisional vs final data (mainly VAT and Income taxes, as well changed data sources from monthly reports to annual financial statements especially for the October notifications);
- Implementing action points from previous dialogue visit;
- Implemented recommendations from Eurostat (for example on KEDIPES accounts, on the recording of SMP (Securities Markets Programme) transfers).

Discussion and methodological analysis

Eurostat thanked CYSTAT for providing the revision notes on a regular basis and encouraged them to continue this approach in the future, providing more detailed information for the largest revisions.

CYSTAT confirmed that the next benchmark revision is foreseen for 2024.

Findings and conclusions

No action points identified.

New computerized Enterprise Resource Planning System (ERP)

Introduction

The implementation of the ERP was extended until January 2023, while initially it was expected to be implemented on 1 January 2022. The new system will replace the current software (FIMAS) and will support the functions of Accounting, Payroll, Budget, and Human Resource Management. ERP will support the planning and the budget preparation, as well as the execution and monitoring of the budget. ERP will be based on IPSAS, so it will be on an accrual basis. ERP will provide reliable and comprehensive financial information. The implementation of the ERP will improve the quality and effectiveness of the financial management.

The project is split in two subprojects, namely the “Finance” project and the “HRP” (HR and Payroll) project. The Finance project has a targeted go-live date of 1 January 2023 and will basically cover financial management, i.e. provide functionality for budgeting and accounting. The HRP project has a targeted go-live date of 1 January 2024 and will replace legacy payroll and pension systems.

Discussion and methodological analysis

The representative from the Treasury of the Republic of Cyprus explained that the ERP system has been tested and should be completed within the first six months of 2022. ERP is going to enable the financial reporting on an IPSAS basis. The local and public authorities will not be covered by the ERP, and only ministries and independent agencies will be covered. The target in the future is to prepare the consolidated financial statement on an IPSAS basis of the whole public sector. The first set of financial statements on an accrual basis (non-consolidated) should be prepared in December 2023, while the consolidated statement will be provided in December 2024. The balance sheets will be also available in the ERP. The balance sheets will include all categories on an accrual basis. FIMAS will finish its operations on 31 December 2022, however full cash information (budget execution) will be available as one of the ERP modules. CYSTAT is planning to use budget execution data for the working balance for the EDP compilation. CYSTAT confirmed that they were actively participating in the development and implementation of the ERP.

Findings and conclusions

No action points identified.

1.2.2. Compliance with Council Directive 2011/85

Introduction

The provisions on budgetary frameworks of the Council Directive 2011/85 were transposed in the FRBF Law (2014), which contains several provisions as regards the procedures of statistical

reporting, quality management, control and audit. According to the European Commission, Cyprus has successfully and fully transposed the Directive 2011/85 into national law.

CYSTAT regularly publishes the methodological note, which is required according to Article 3(2) b) in Chapter II of the Council Directive 2011/85, information on contingent liabilities, including government guarantees, non-performing loans, and liabilities stemming from the operation of public corporations as well as information on the participation of general government in the capital of private and public corporations.

Discussion and methodological analysis

Eurostat inquired why the Methodological Note is not any more published on the CYSTAT website. CYSTAT explained that this is due new website launched, but it will be published in the near future. In addition, CYSTAT confirmed that the Methodological Note would be updated.

CYSTAT confirmed that the missing data for two public corporations (action point 3 from the last EDP DV on 2019) would be included in the Questionnaire on government-controlled entities and transmitted in December 2021⁴.

Findings and conclusions

CYSTAT will update the Methodological Note which mentions the ESA95 and will include changes which have appeared recently (for example payments to National Health System). Eurostat will be informed on the new publication of the Methodologic Note.

1.2.3. EDP Inventory

Introduction

The latest updated version of the EDP Inventory (ESA 2010) was provided by CYSTAT in July 2020 and published on Eurostat's website on 27 July 2020. The EDP Inventory incorporates the action points addressed after the latest EDP mission in 2019. Thus, the action point No. 4 from the dialogue visit of 2019 was fulfilled. However, the Annex 1 - Register of general government units by subsector and by NACE - was not updated and provided together with the EDP Inventory.

Discussion and methodological analysis

Eurostat thanked CYSTAT for the updated EDP Inventory and asked CYSTAT when they intend to send the updated Annex I. CYSTAT confirmed that it would be sent at the end of 2021⁵.

⁴ The data were provided on December 2021.

⁵ The Annex I was provided and published in January 2022.

Findings and conclusions

The action point related to the Annex I of the EDP Inventory is described under the next item, Follow-up of the previous EDP dialogue visit of 23-24 May 2019.

2. Follow-up of the previous EDP dialogue visit of 23-24 May 2019

Introduction

Following the previous EDP dialogue visit, Eurostat issued 28 action points. Most action points were accomplished, however there were still 3 pending action points and 2 action points under evaluation.

Action points in progress:

- AP. 3: *CYSTAT will provide data on liabilities of all public corporations for the year 2018 in the context of the end of December 2019 transmission of data on government contingent liabilities.* Liabilities for 2 corporations are still missing.
- AP. 13: *CYSTAT will provide, together with the Supplementary Table on Government support to financial institutions, also the part C of this table.* The table is filled in, but there is a discrepancy due to KEDIPES' accounts.
- AP. 22: *Eurostat and CYSTAT will examine the accounting implications of the operations involving KEDIPES and SEDIPES in order to ensure a correct recording in government accounts.* KEDIPES accounts are continuously examined and change often due to various reasons (new information, updated data sources, methodological corrections). However, there is still a discrepancy in KEDIPES' accounts of 2019.

2 action points from 2019 EDP dialogue visit were under evaluation:

- AP. 1: *CYSTAT will send to Eurostat the documentation on FIMAS, in English (on business architecture of the system, user manual, etc.) as discussed during the dialogue visit.* CYSTAT informed Eurostat by email: "The documentation in English is not available and thus we consider that there is no point in keeping this action point as open".
- AP. 15: *CYSTAT will investigate whether Eurostat could have access to the financial Business Register of companies.* CYSTAT answered that no access to such detailed information is available (Eurostat clarified the need to get access to the financial statements of companies, as well as to information on owners of companies and statutes).

Discussion and methodological analysis

The AP. 3 was discussed under the agenda item 1.2.2 (Compliance with Council Directive 2011/85). CYSTAT confirmed that the missing data would be provided with the next transmission in December 2021, thus AP. 13 was closed, but a new one was identified (No 2021/5).

Issues related to AP. 13 and 22 are related to KEDIPEs' accounts and were discussed under agenda item 4.3.3 (Government interventions to support financial institutions (KEDIPEs)). The AP. 13 was closed as the Supplementary Table on Government support to financial institutions (including part C) is regularly filled in and provided during EDP notifications. The AP. 22 was closed too, but a new action point was identified related to KEDIPEs' accounts – action point No 2021/27 (discussion under agenda item 4.3.3).

Concerning the action points under evaluation (No 1 and 15), CYSTAT confirmed that the situation had not changed and there was no possibility to provide to Eurostat the documentation in English or get the access to the financial Business Register of companies. The action points were closed.

Regarding the action point from the last EDP dialogue visit on the EDP Inventory, Eurostat identified a new action point with the aim to receive the updated Annex I.

Findings and conclusions

Action point 2021/4⁶

CYSTAT will provide Eurostat with the updated Annex I of the EDP Inventory.

Deadline: by the end of December 2021.

Action point 2021/5⁷

CYSTAT will include missing data on liabilities of public corporations, including data on liabilities towards general government in the Questionnaire on government-controlled units classified outside general government.

Deadline: by the end of December 2021.

3. Analysis of the EDP tables and follow up of the October 2021 EDP notification

Introduction

⁶ The action point 2021/4 was implemented in January 2022.

⁷ The action point 2021/5 was implemented at the end of December 2021.

The main issues discussed during the October 2021 notification that remained open for discussion during the dialogue visit are described below.

- 1) The working balance of local government (questions No 13 and 14 from the October 2021 EDP notification). The working balance of the local government for 2020 was reported as a surplus of EUR 24 million in the April 2021 notification. During the October 2021 notification the working balance of local government for 2020 was revised by 41 million – it was reported as having instead a deficit of 17 million. During the request for clarification, CYSTAT explained that the working balance was revised due to a vintage issue of 2020 data (final vs provisional data). The use of data sources was discussed under the agenda item 1.2.1 (Changes in data sources and revision policy).
- 2) The debt of the semi-organisation Cyprus Organisation for Storage and Management of Oil Stocks (COSMOS). During the October 2021 notification, CYSTAT revised the outstanding amount of the central government debt of 2020: debt was increased by EUR 17 million. According to the explanations of CYSTAT, the debt was revised due to insufficient information from the competent authority during the April EDP notification. The revised COSMOS' debt disclosed the incorrect consolidation of the COSMOS' loan: the consolidation should be done at the level of the central government, but it was done at the level of the general government. Other disclosed issue concerns the initial stock of COSMOS' debt: the initial recorded loan stock of COSMOS towards KEDIPES was 28 million, however it was decreased to 20 million euro after the confirmation of COSMOS (the remaining 8 million concerns an obligation towards Bank of Cyprus).

COSMOS is a non-profit semi-governmental organisation operating under the supervision of the Minister of Energy, Commerce, Industry and Tourism of Cyprus. It is classified in S.1311. The mission of COSMOS is to maintain and manage the minimum stocks of crude oil and oil products of Cyprus, which have to be available at all times. COSMOS has a loan liability towards KEDIPES (exCCB).

- 3) The discrepancy of KEDIPES' accounts for 2019. The issue was discussed under agenda item 4.3.3 (Government interventions to support financial institutions (KEDIPES)).
- 4) The social contributions of HIO on accrual basis. The issue was discussed under agenda item 4.3.4 (The reform of national Health System).
- 5) 2020 data of the other central government bodies provided by CYSTAT. File name: Annex I, "Detailed revenue and expenditure OCGB 2020".

Discussion and methodological analysis

CYSTAT presented detailed information on how Cyprus' EDP tables for 2020 were compiled, including the working balance, data sources and methods.

During the presentation CYSTAT informed about a recently identified issue concerning a local government loan. The local governments receive loans from the central government (which borrowed from the EIB) however, not all municipalities consider such loans as liabilities in their monthly reports. CYSTAT checked the reported liabilities of all municipalities and compared them with the data of central government and observed that the loan provided by the EIB to local government (transiting through the State accounts) is not correctly recorded in the reports of some municipalities. Thus, consolidation with the central government cannot be correctly applied. CYSTAT confirmed that the loan from the EIB was correctly recorded in the debt of central government. It also considers that municipalities which did not report the received loans, do not treat them as revenue. However, the issues (the consolidation and the recording of revenue in S.1313) raised by Eurostat, will be investigated in detail by CYSTAT.

In the context of the local government financial accounts, Eurostat inquired whether CYSTAT continues to carry out a reconciliation exercise in accordance with action point No 10⁸ from the EDP dialogue visit in 2017. CYSTAT explained that this reconciliation exercise was made only for central government. Eurostat suggested to carry out the same reconciliation exercise for the local government accounts to avoid omissions or inconsistencies in the financial accounts of local government. The reconciliation should be made comparing the data of the central bank for S.1313 with the data in the reports of municipalities for loans and deposits. Eurostat also reminded that the reconciliation exercise according to action point No 10 from EDP dialogue visit should be carried out regularly. CYSTAT promised to renew the exercise.

The discussions on COSMOS' debt started with the issues discovered during the October 2021 EDP notification: the stock of the COSMOS' debt and the level of consolidation. Eurostat enquired if CYSTAT can confirm that there was no double consolidation in the general government debt due to COSMOS' loans as it could be assumed based on the information provided by CYSTAT prior to the dialogue visit. CYSTAT explained that the table provided to Eurostat prior to the visit was not correctly compiled. On the second day of the dialogue visit CYSTAT presented the correctly consolidated COSMOS debt and assured that the appropriate update will be applied to the national accounts of Cyprus. Eurostat encouraged CYSTAT to always cross-check the consolidation data coming from the counterparts. CYSTAT took note and will keep checking the counterparts' data while elaborating the consolidated data of general government.

The 2020 data of other central government bodies were discussed based on the information provided in the Annex I – “detailed revenue and expenditure of other central government bodies”. Eurostat thanked the Cypriot statistical authorities for providing the detailed non-

⁸ **Action point 10.** *With the assistance of the Treasury, CYSTAT will carry out a reconciliation exercise between the single government bank account as stated by the Central Bank of Cyprus and the related accounts recorded in FIMAS (Treasury system) and will, notably, monitor the difference created by government cheques issued but not yet cashed with the central bank. This reconciliation will also be routinely appended to EDP tables.*

financial and financial data of other central government bodies. The 2020 financial and non-financial accounts of some organisations were discussed in detail in order to check the recording made by CYSTAT. Notably:

- Cyprus Petroleum Storage Company LTD has recorded an increased EUR 0.9 million loan liability. Eurostat asked to confirm whether this loan is included in the general government debt. CYSTAT will check and inform Eurostat about it.
- The National Solidarity Fund has recorded a decrease of other accounts payable but without any transaction in currency and deposits. CYSTAT explained that this was done due to an account 67 which is the balances of a special fund in the Treasury Department and CYSTAT presumed that it is F.8pay. The issue will be examined to analyse the detailed accounts and a relevant correction will be made.
- The Recapitalisation Fund and the Turkish Cypriot Property Administration Fund also have recorded only F.8pay without any F.2. However, the Recapitalisation Fund has received a loan from the State Budget according to the information of Statement 3.4 of the Annual Financial report. Eurostat inquired whether this loan is recorded in the financial accounts of the Recapitalisation Fund, especially since the stock of the loan decreased by EUR 29.1 million in 2020. CYSTAT explained that this loan is connected to CCB: there was a state aid of EUR 175 million given to CCB and included into the capital transfers in 2015, thus it was not considered as a loan in national accounts. CYSTAT thinks that there was no cash movement in deposits related to this loan, however the issue will be clarified.
- The Deposit Guarantee Schemes non-financial accounts do not include any taxes, however, according to the EDP Inventory “*All contributions to the DGS are non-refundable and consequently they are recorded as taxes and not as other accounts payable (F.8)*”. CYSTAT explained that these taxes were collected by the State and not by the DGS and recorded as D.51 in national tax list. Eurostat explained that the tax should be recorded as D.29, and also that the claims resulting from the activation of DGS in 2016 should be already reduced. CYSTAT will verify the status of the claims.
- The Public Loans Fund recorded a capital transfer and an other accounts payable in 2020, when this entity was closed. Eurostat asked more clarification on such recording.
- The University of Cyprus has recorded revenue from sales (including P.12) and other capital revenue. Eurostat inquired whether own account capital formation is fully reflected in capital formation.

Findings and conclusions

Action point 2021/6

CYSTAT will correct the consolidation of COSMOS’ (Cyprus Organisation for Storage and Management of Oil Stocks) debt.

Deadline: April 2022 EDP notification.

Action point 2021/7

CYSTAT will investigate the revisions between the April and October notifications in case of proper data not being received and “Other” data sources being used in the October notification. CYSTAT will report on the biggest discrepancies between the monthly data and the financial reports.

Deadline: October 2022 EDP notification.

Action point 2021/8

CYSTAT will check – and report to Eurostat the results of the analysis – the recording of the transaction of some Extra-Budgetary Funds and Semi-Government organisations provided in the Annex I – Detailed revenue and expenditure OCGB 2020:

- *The increase of the loan liability of Cyprus Petroleum Storage Company LTD;*
- *The decrease of other accounts payable of the National Solidarity Fund, Recapitalisation Fund and Turkish Cypriot Property Administration Fund;*
- *Whether the cash relating to the decrease of the loan provided by the State to the Recapitalisation fund reported in the Statement 3.4 of Annual Financial report was received and correctly recorded;*
- *The contributions to the Deposit Guarantee Scheme – notably ensuring that non-refundable national contributions are reflected in D.29h and verifying the status of claims resulting from the activation of the DGS in 2016;*
- *The financial transactions of the Public Loan Fund as well as any consolidation within S.1311;*
- *Whether the own account capital formation of University of Cyprus is fully reflected in capital formation;*
- *Whether the management of oil stocks is correctly reflected in P.52 rather than P.2/P.11 for COSMOS.*

Deadline: April 2022 EDP notification.

Action point 2021/9

CYSTAT will check whether the loan provided by the EIB to local government transiting through the State accounts is correctly recorded and consolidated within the debt of the general government. It will also verify how, if at all, the transfer of money between S.1311 and S.1313 was recorded in the source data in order to check (and eliminate if necessary) a potential impact on government B.9.

Deadline: April 2022 EDP notification.

Action point 2021/10

CYSTAT will carry out (and then continue doing on a regular basis) a reconciliation exercise with money and banking statistics for extra-budgetary units and local government loans and deposits. The results of the reconciliation exercise will be shared with Eurostat. CYSTAT will ensure that currency and deposits (F.2) recorded in the government accounts are a reflection of movements in the government bank accounts. Taking into account that the currently used data source is mainly on a cash basis, CYSTAT will verify – and report to Eurostat – whether the current recording of other accounts payable/receivable is justified by timing differences between non-financial transactions and the respective payments. Should this not be the case, the current practice of allocating other accounts shall be discontinued. If not fully justified, the use of OAP/OAR to balance the discrepancy shall be discontinued. CYSTAT shall report on the entities with the largest discrepancies on a regular basis.

Deadline: by the end of February 2022.

4. Methodological issues and recording of specific government transactions

4.1. Delimitation of general government sector, application of market/non-market test in national accounts

4.1.1. Changes in sector classification since the last EDP dialogue visit

Introduction

Prior to the visit, CYSTAT provided the list of the units recently included in and removed from the general government since the latest 2019 EDP dialogue visit: 3 entities were added (Health Insurance Organisation (HIO) (S.1314), State Health Services Organisation (SHSO) (S.1311) and Fund for the protection and Insurance of Agriculture production (S.1311)) and 5 entities were liquidated (Cyprus Tourism Organisation (S.1311), Cyprus Culture Foundation (S.1311), Construction of Museum (S.1311), Agriculture Insurance Organisation (S.1311), Public Loans Fund (S.1311)).

Discussion and methodological analysis

Eurostat asked CYSTAT to explain how they classified the liquidated entities (for example Cyprus Tourism Organisation, Cyprus Culture Foundation and others) in national accounts. CYSTAT explained that Cyprus Tourism Organisation was transferred to the new deputy ministry like it was also the case for the Agriculture Insurance Organisation, while the closed Construction of Museum was recorded in 2017 and it is included in the EDP table 2A (EUR - 44 million).

Information about newly created corporations which should be included into the Questionnaire on public corporations is obtained from the Business Register.

CYSTAT confirmed that all public hospitals are included in general government and are managed by the State Health Service Organisation.

The Civil Aviation and the Postal Services are market producers but they are part of the general government due to lack of autonomy. These corporations are not listed in the EDP questionnaire Table 3 because all revenue and expenditure are included in the working balance of the central government.

Findings and conclusions

No action points identified.

4.1.2. Practical implementation of the market/non-market test and of qualitative criteria

Introduction

The central government subsector includes, by definition, all administrative departments and other governmental departments and bodies whose activities are incorporated in the National Budget and form a single institutional unit. Taking into consideration all relevant ESA 2010 criteria, government-controlled units are examined annually. For their examination, their financial statements or additional data provided are used. All units determined to be controlled by government as defined in ESA 2010 (equity participation, management, legislation) are examined to conclude whether their sales cover the majority of their production costs, as per the Eurostat 50% market/non-market test. Out of these, 27 semi-government organisations were classified in the general government sector under the central government sub-sector as they were identified as non-market producers, controlled and mainly financed by the state budget. Twenty (20) units that meet the 50% criterion (are market) are listed in the questionnaire of the Government-controlled entities classified outside the general government. The market/non-market test is performed on an ongoing basis.

The legal status of corporations is also taken into consideration for sector/subsector classification. When a new unit is created and not covered by FIMAS, the information is provided by the Business Register. The GFS Section examines whether this unit is to be classified within or outside the general government sector. In case a unit is a public corporation, CYSTAT reviews the nature of its transactions during the calculation of the market/non-market test. The formula used for the market/non market test is as follows:

If $(\text{Total Revenue})/(\text{Total Expenditure}) > 50\%$, then the entity is a market producer, where:

Total Revenue = GS - D.21 - (Holding gains, Dividends, Investment Grants or Other Capital Transfers)

Total Expenditure = Production costs = P.2+D.1+P.51c+D.29+ Net D.41

Net D.41 = D.41, payable - D.41, receivable (If Net D.41<0 then it is replaced by 0).

Discussion and methodological analysis

The consumption of fixed capital (CFC) for market / non-market test (MNM) is taken from the financial statements without any adjustment. Eurostat explained that some countries use coefficients for depreciation (as the CFC is higher), while other countries do not but they calculate CFC separately for large companies (e.g. infrastructural) or those with the 50% test close to the threshold. In the case of Cyprus, the depreciation amounts are small and there should not be a big effect. Besides the annual financial reports, CYSTAT uses structural business statistics for the MNM test. CYSTAT confirmed that they have detailed information in the structural business statistics which allows to eliminate sales that are not real sales for the MNM test.

The discussion focused on a few public corporations which are not classified in the general government sector.

Sewage disposal boards. In Cyprus there are 7 sewage disposal boards which are classified in S.11. All Sewage boards are controlled by the local governments (S.1313). For three of them, CYSTAT provided the MNM tests (Agia Napa, Paralimni, Idhalion). According to information from CYSTAT, all 3 boards are profitable. According to the information of the Annual Financial Report of the Treasury of the Republic, the State has provided guarantees to all sewage boards. According to the Evaluation of the sewage fees and the Operation of the Sewage Boards in Cyprus made by the Audit Office of Cyprus in 2017⁹, the *“Boards are responsible for the examination, construction, operation and maintenance of the Central Sewage System for the collection and treatment of liquid waste/urban sewage, and in some cases for the construction of the basic infrastructure of the sewage system for rainwater in the area that falls within the boundaries of each Board. They are governed by a Board, which consists of the Municipal Council of the respective Municipality, with the Mayor acting as President and the elected representatives of the Municipalities and or the Communities that fall within the area of the Board as members. The Boards impose such fees as will allow them to finance the construction projects, the operation and maintenance of the project, as well as to create a satisfactory amount of savings for future extensions, upgrades and replacements of the system. The budgets of the Boards are approved by the Minister of Interior and Minister of Finance after receiving the opinions of the relevant Departments. The fees are approved by the Parliament. The Boards*

⁹ <http://www.audit.gov.cy/audit/audit.nsf/all/ACF82B7F57B407D9C2258722002396F8?OpenDocument>

carry out studies to determine the sewage fees and for financing the projects they intend to execute. The sewage fees are revised at regular intervals, according to each Board's needs. The determination of the fees is related to the financial situation of each Board, the executed projects, as well as the scheduled projects.”

Eurostat expressed a doubt on whether, based on the information found in the report of the Audit Office of Cyprus, the Sewage Disposal Boards could be classified outside the general government. They seem to lack autonomy of decision, the fees charged are approved by the Parliament, and budgets are approved by the Minister of Interior and the Minister of Finance. CYSTAT considers that the main reason for which these boards are not part of general government is that the amount estimated as a fee is dependent on the consumption of the households and also on the size of the house – it is directly linked with the services provided. It means that it should be treated as a market fee and not as a tax. CYSTAT will investigate the issue and inform Eurostat about the results.

Cyprus Certification Company (S.11). The Cyprus Certification Company (CCC) was founded in 2002 with the sole shareholder being the Republic of Cyprus. The CCC is a subsidiary of the Cyprus Organization for Standardization, which is classified in the general government (S.1311).

Eurostat asked to provide more reasons on why CCC is classified outside the general government, when its main company is classified in S.1311. CYSTAT informed that they need more time to investigate.

Grain commission (S.11). The corporation manages the stocks of grains (the strategic reserves). During the latest EDP dialogue visit it was mentioned that corporation is foreseen to be closed by the end of 2019. The company has been loss making during last 3 years, but the MNM test is still above 50 percent. The liabilities at the end of 2019 were EUR 24.3 million. The unit receives no subsidies or other transfers from government. According to information from media the company will be closed down: the expected deficit for 2021 is over EUR 7 million.

CYSTAT confirmed that there was a vote in Parliament in 2021 and it was decided to close the Grain commission.

Forest industries (S.11). Cyprus Forest Industries Ltd produces and trades wood products used in the manufacture of furnitures and related goods. The corporation is profitable on average only every second year. The MNM test is above 50 %. During the latest EDP dialogue visit it was mentioned that the government owns a number of shares, and the unit would be privatized in the near future. In this EDP dialogue visit CYSTAT informed that they did not have any further information about the foreseen privatization.

Findings and conclusions

Action point 2021/11

CYSTAT will check the classification of all Sewage Disposal Boards according to the MGDD provisions (assessing the decision-making autonomy of the entities, the statistical treatment of their revenues) and send to Eurostat a note with the results of their analysis.

Deadline: by the end of February 2022.

Action point 2021/12¹⁰

CYSTAT will investigate the classification of Cyprus Certification Company, which is a subsidiary of the Cyprus Organization for Standardization classified into the general government.

Deadline: by the end of January 2022.

Action point 2021/13

CYSTAT will closely monitor the status of the Grain commission, which is scheduled to be closed in the near future and assess its classification according to section 1.2.4.4 of the MGDD 2019.

Deadline: by the end of December 2022.

Action point 2021/15

CYSTAT will follow up the events about the privatisation of Forest industries.

Deadline: by the end of December 2022.

4.1.3. Government controlled entities classified outside the general government sector

Introduction

Eurostat, together with CYSTAT, reviewed the last version of the Questionnaire on government-controlled entities, which was sent on 23.12.2020, with data for 2019. According to the Questionnaire on public corporations for the year 2019, there are only 20 public corporations classified outside the general government.

Discussion and methodological analysis

Eurostat enquired about the subsidiaries of the public corporations, on how many of them there are in Cyprus and whether CYSTAT checks them in the context of the MNM test. CYSTAT could not provide such information during the visit, but it will investigate the issue.

¹⁰ The action point 2021/12 was implemented.

Two additional companies were also discussed.

The Housing Finance Corporation (HFC) is a credit institution (loans granted only to domestic households) classified into S.12. During the latest EDP dialogue visit in 2019, Eurostat concluded that this entity was not a development bank and that its sector classification was correct.

HFC was established in 1980, under the Housing Finance Act, 43/1980. It is a state-owned organization governed by a nine-member Board of Directors, appointed by the Council of Ministers, usually for a three-year term. The main aim of the HFC is to provide long-term housing loans, giving priority to lower and middle-income groups. To implement its purpose, HFC provides a range of savings accounts to attract deposits from the public. It uses most of the funds to provide mortgages to families, mostly young couples, for the acquisition of their first home. HFC accounts for a substantial part of the market for housing loans in Cyprus. Starting in July 2019, when the new legislation was adopted by the Cypriot House of Representatives, HFC has expanded his activities:

- 1) It grants loans to the State as well as to legal persons governed by public law or to local authorities, or to other bodies governed by public law or other bodies, by obtaining a State guarantee.
- 2) It manages, as a trustee, the loans approved by Central Agency for Equal Distribution of Burdens. This Agency was created in 1974. On 6 November 2019, the Council of Ministers decided to adopt a management plan for terminated/expired/non-performing loans granted after approval by the Central Agency for Equal Distributions of Burden.
- 3) It manages, as a trustee, the Housing plans of the State. On 22 April 2021, the Council of Ministers approved the 'Housing Plan - Loan Management Plan granted to the Government Housing Plan Frameworks'. The Housing Plan sets out criteria for debt write-off and is intended to assist primary debtors of loans with government funds (Housing Plan for Lodging Families with Low Income) or through the Single Housing Plan or with co-financed funds. The Housing Plan covers Non Performing Loans with a value of EUR 98 million.

On 1 August 2019, HFC granted a loan of EUR 250 million to the Republic of Cyprus with a maturity of 7 years, at a fixed interest rate of 0.975 %.

During the discussion CYPSTAT confirmed that HFC is a financial corporation operating under the regulation and supervision of the Central Bank of Cyprus. It grants loans and collects deposits. It provides loans to the Central Agency for Equal Distributions of Burden, but it does not receive any interest on these loans. It acts as an intermediary between the government and the Agency and receives an annual fee of around EUR 2 million for its services. There are no guarantees for the loans provided by the Central Agency for Equal Distributions of Burden. The

company also participates in the ESTIA and Oikia schemes. The ESTIA scheme concerns restructuring of vulnerable loans, but the scheme was not successful. Oikia scheme (set only for HFC) was approved by the EC in August 2021. According to this scheme, the households which fulfil some criteria, will have 3 options for non-performing loans: either the restructuring of the loan, starting paying the repayments every month, or the option to write-off (50 %) part of the loan, with the government paying this part of the loan while the household would pay the rest of them, or a combination of both: restructuring and write-off. The loan which will be written-off will be treated in government accounts as a capital transfer. The maximum amount of the loan approved by EC is EUR 50 million. According to the FIMAS data in September 2021, there are expenses of EUR 0.5 million for the Oikia scheme booked in D.9 for write-offs of loans.

CYSTAT also confirmed that HFC does not provide loans to public corporations, but only to households and to the State. Eurostat inquired if anyone can open a deposit account at HFC. CYSTAT confirmed this information, as HFC behaves as a normal bank. The housing loans and student loans are granted without government guarantees.

CYSTAT also confirmed that there are no non-performing loans in Cyprus' banks, which would be securitised (put in SPV) while government would provide guarantees on the reimbursement of the notes issued by the SPV that has purchased the assets to the banks.

The Cyprus Land Development Corporation (CLDC) (S.11) was established by the Cyprus Government in 1980 in the framework of the government's social policy for the housing sector. According to the list of Public corporations classified outside the general government, CLDC profit was 0.0 in 2019, while the MNM test is above 50 % and the liabilities are indicated at EUR 64 million. Based on information from Statement 3.4 of the Annual Financial Report, the stock of loans (with zero interest) granted from the State to CLDC was EUR 59.8 million in 2020.

CYSTAT pointed out that CLDC has very small amounts of revenue and expenditure. This organization has its own contractors and constructs buildings for households with low income. CLDC sells (not rent) the houses according to the appropriate criteria decided for households with low and middle income. The criteria are defined by the Council of Ministers. The board of the company makes a selection of families according to the predefined criteria. Eurostat asked if the government is determining who will be able to buy a house. CYSTAT replied that the Council of Ministries approved the Board of the corporation, which decides which families will benefit based on the criteria defined by the Council of Ministries. Eurostat asked about the liabilities, if the corporation is profitable and how the entity will repay the loan to the State. The loan was granted in 2001 and the maturity is until 2026 with zero interest. According to CYSTAT the loan is diminishing, so there is a prepayment every year (repayment of the principle).

Findings and conclusions

The sector classification of HFC and CLDC will not change, however the monitoring of these corporations will continue.

Action point 2021/14¹¹

CYSTAT will check the market character of the biggest or possibly non-market subsidiaries of public corporations in order to ensure that MGDD rules concerning classification are correctly applied.

Deadline: by the end of January 2022.

4.2. Implementation of accrual principle

4.2.1. Taxes and social contributions

Introduction

CYSTAT is using the time adjustment method for implementing accrual adjustment. A time-adjusted cash method of 2 months is used for VAT and for taxes on income of employees (it is only applied to three cases of income tax for employees, for the self-employed and for those employed by international business and not for civil servants), and of one month for social contributions. VAT returns are not adjusted, as they are attributed to the month when they are paid. Data on taxes and social contributions are retrieved from FIMAS on a monthly basis and are used by CYSTAT to compile the EDP tables and the related questionnaires on taxes.

Reimbursements and refunds are taken from the gross cash data. Refunds and reimbursements are recorded in the National Treasury as an expenditure item. For GFS purposes, however, those amounts are considered as negative revenue, thus they are deducted from the proceeds of the tax collections. Final data on taxes are available for the October EDP notification.

Corporation income taxes are received in three instalments over the reference year, thus the cash receipts can be seen as a good approximation to accruals. The actual social contributions paid by employers and employees are recorded at the same time when the work that gives rise to the liability to pay the contribution is carried out. Cash payments towards those obligations to pay by both parties (employers and employees) are recorded within the period in which the liability arises. For self-employed, the Ministry of Labour and Social Insurance provides to PFS the information concerning the accrual adjustments of the social contributions and the amounts involved.

Discussion and methodological analysis

¹¹ The action point 2021/14 was implemented.

Discussions related to new social contributions were held under agenda item 4.3.4 (The reform of National Health System).

4.2.2. Interest

Introduction

CYSTAT implemented the action point No 19¹² from the latest EDP dialogue visit in 2019 and provided a detailed table on interest, where interest of loans, debt securities, EMTN, and treasury bills are separately shown. The source information for the interest accrual is the Treasury of the Republic. The interest table now is always provided for each EDP notification.

Discussion and methodological analysis

No discussions on interest.

4.2.3. EU flows

Introduction

CYSTAT has implemented the action point No. 20¹³ from the EDP dialogue visit in 2019, and now is correctly implementing the adjustments for the payments from the European Funds in the EDP and Questionnaire tables. Only EU data of EAFRD (European Agricultural Fund for Rural Development) are not recorded in government accounts, because the transfers only pass through the Agricultural Payments Organisation which is classified within the general government sector – flows from the EU are not considered either as revenue or expenditure.

Discussion and methodological analysis

The Annex II provided by CYSTAT before the EDP DV was discussed in detail. CYSTAT reported the expenditure from EU flows only as D.9 in the Annex II, however ESA table 2 provides more detailed information on the expenditure from the EU flows. CYSTAT explained that, concerning Annex II, it was an issue of presentation, and that the expenditure was usually recorded in the appropriate expenditure item according to the ESA rules. Annex II includes the EU expenditure of the whole government except the payments from EAFRD. Regarding local government, CYSTAT confirmed that local authorities also implement the EU projects, however all payments transit through the central government: the local authorities record EU funds

¹² Action point 19. *CYSTAT will provide to Eurostat the additional Table on interest.*

¹³ Action Point 20. *The Treasury will provide CYSTAT with the necessary information to apply rules on the EU grants' recording (in order to book receivables for government for money spent by government on behalf of the EU). At present, expenditure carried out by government on behalf of the EU, where the final beneficiary is either government or a third party, does not appear to be neutralised at inception but only following a time lag.*

received from the central government as D.9 and an appropriate expenditure is recorded under the relevant transaction.

Eurostat inquired on the reconciliation between the data in Annex II, provided prior to the EDP dialogue visit, and ESA table 2. According to CYSTAT, the data source for Annex II is the Treasury of the Republic of Cyprus and the data source for ESA table 2 is the data from the Central Bank of Cyprus. CYSTAT will investigate and inform Eurostat on the results.

EU grants

Introduction

During the April 2021 notification a discussion took place about some other kind of revenue from the EU recorded in the Financial Report of the Republic of Cyprus. Besides income from European Funds, which is subject to the adjustments in the EDP tables, the government of Cyprus receives and records as income European Union grants. They “concern grants for which the disbursements are made when the projects are validated according to the grant terms”. The amounts are significant. According to the Financial Report of the Republic of Cyprus, the income from European Union grants was EUR 32.3 million in 2020 and EUR 26.7 million in 2019.

Discussion and methodological analysis

According to CYSTAT, there are some projects which are reimbursed directly from the EU, for example ERASMUS. The beneficiaries of such projects are not part of the Cyprus core government, but are the implementing bodies (it could be some ministries or other authorities). Some implementing bodies could even be private companies, thus not all expenditure is recorded in the general government accounts. Eurostat asked to explain how EU funds are recorded in the accounts of the government. CYSTAT explained that when, for example, the EU project is run with another country, the ministry or department implementing the project recognises the expenditure and the revenue in their accounts (and not in the Treasury), but there are time differences between expenditure and revenue; the first expenditure occurs, then the submission to the EC follows and finally the reimbursement comes. However, some projects allow for advance payments. These are the cases where revenue would not be shown in Annex II, because it includes only the projects from the Cohesion policy funds (the responsible for such projects is the government of Cyprus). In the programs (Cohesion, EFSF etc.) where the Treasury of the Republic of Cyprus is the certifying authority, the revenue is recognised only in the central government, which pays the amounts to the implementing bodies. In this case there are also timing and budgeting issues. Eurostat summarized that, first, the government of Cyprus spends money for EU projects on behalf of the EU, then the government submits declarations of expenditure to the EC and finally the EC makes reimbursements on the basis of the submitted declarations. The B.9 is correct, but there is no exact neutralisation due to the time lag. CYSTAT

also explained that the initial advance payments and the annual advance payments are recorded in the deposit accounts. The declaration of expenditure is usually done twice per year (in July and December). The time lag between expenditure and the submission of declarations to the EC can sometimes take a few years. Eurostat concluded that CYSTAT will need to provide more information with the aim to check what amounts the government of Cyprus receives from the EC, what declarations and at what time are submitted to the EC and what amounts are receivables and payables. Eurostat also pointed out that the advance from the EU should be recorded as a payable in national accounts (ESA table 27, EDP table 3, and EDP Questionnaire table 6).

EU financial instruments

Introduction

- 1) Financial instruments co-founded by Cohesion Policy Funds from the Operational Programme “Competitiveness and Sustainable Development 2014-2020”. The fund was created in order to support projects in the fields of energy efficiency and renewable energy sources, both for the public and private sector (households and enterprises). The management of the financial instrument (and the respective fund – Cyprus Energy Fund of Funds) has been assigned to the European Investment Bank (EIB). Furthermore - and in the context of the COVID-19 pandemic – the fund was expanded by using part of available resources to support working capital and capital expenditure of enterprises which are adversely affected by the crisis. This was achieved by invoking the relevant provisions of EU’s Temporary Framework for State Aid (and its subsequent amendments).
- 2) CYPEF – Cyprus Entrepreneurship Fund. It is a national scheme in the form of a dedicated state-owned bank account in Luxembourg, established in 2013 by a Council of Ministers’ decision in order to help the country’s private sector following the financial crisis. The government of Cyprus contributes funds to CYPEF from EIB loans. The fund manager is the EIF. The CYPEF products are deployed in the market via Cypriot Financial Intermediaries, selected by EIF following a certain procedure, which signed a portfolio sharing (50%-50%) loan agreement. The banks contribute via their own funds, through co-financing 50% and the Government by covering the remaining amount of each loan granted through CYPEF for an equal part. CYPEF’s financial instruments are deployed by local banks. CYPEF is classified in S.1311 since the supervision of the Fund is under the Ministry of Finance.

Discussion and methodological analysis

CYSTAT informed that the Jeremy financial instrument (EIF) from the programming period of 2007 – 2013 dedicated to SMEs is already closed. The new financial instrument, Cyprus Energy Fund (EIB), is dedicated to investments into energy, but due to the COVID-19 pandemic its scope was extended. The financing of the fund will be as follows: EUR 40 million from the EU funds, EUR 40 million from the budget and EUR 40 million from the EIB as a loan. It is planned

to transmit the accumulated funds to the fund for the next financial programming period 2021-2027. Money from the financial instrument of 2014-2020 will be rolled over into the next programme.

Regarding CYPEF, CYSTAT confirmed that, at the moment, they did not have any information that loans provided by CYPEF would not be reimbursed. The losses originated by CYPEF should be equally shared between banks and government, but this will be further clarified by CYSTAT.

Findings and conclusions

Action point 2021/16

CYSTAT will investigate and reconcile between the different data sources available, the amounts of D.9 for EU flows reflected in ESA table 2 and Annex II.

Deadline: April 2022 EDP notification.

Action point 2021/17

CYSTAT, together with Eurostat, will investigate the recording of EU grants and will start to fill in an additional table on them (the so-called triangular table) if there is a need.

Deadline: continuous, starting with the April 2022 EDP notification.

Action point 2021/18¹⁴

CYSTAT will correctly record the advances received from the EU budget, which should be recorded as other accounts payable according to chapter 2.6 of MGDD 2019.

Deadline: continuous, starting with the April 2022 EDP notification.

Action point 2021/19¹⁵

CYSTAT will check if any losses originated by CYPEF are equally shared between banks and government.

Deadline: by the end of January 2022.

4.2.4. Military expenditure

Introduction

¹⁴ The action point 2021/18 was implemented during the April 2022 EDP notification.

¹⁵ The action point 2021/19 was implemented.

According to the EDP Inventory, the data sources for the recording of military equipment expenditure are the data from the National Budget (the heading “Defence Expenditure”) and from the Trade Statistics (imports of military equipment). Restricted and exclusive information from the Ministry of Defence is also taken into consideration. The difference between the total value of imports and the total expenditure is classified as prepayments for military equipment not yet delivered and is recorded as other accounts receivable.

Discussion and methodological analysis

CYSTAT is recording military expenditure on an accrual basis – only deliveries are included into B.9. However, CYSTAT indicated that such deliveries include also data on local supplies. Eurostat expressed doubt whether local supplies were not rather inventories or assets other than AN.114/AN.113. CYSTAT agreed to check and inform Eurostat.

CYSTAT confirmed that there were no liabilities related to the military equipment and explained that the government usually pays in advance for military equipment, which is delivered later on. Another issues discussed concerned the time when the military equipment is usually delivered. Currently all advances paid for military equipment are recorded as short-term trade credits, however the EDP Inventory indicates that the bulk of stocks of trade credits and advances is of a long-term nature. CYSTAT informed that they do not have detailed information about the time of delivery due to confidentiality reasons, but Eurostat nevertheless encouraged it to use other data sources in this context, such as information from the media. CYSTAT will investigate the maturity of the advances related to purchases of military equipment.

Concerning the COFOG data of military equipment, CYSTAT agreed to check and clarify why they are generally lower compared to the data reported in the EDP questionnaire table 7.

Findings and conclusions

Action point 2021/20¹⁶

CYSTAT will check the recording of the delivery of military equipment from local suppliers to clarify whether they meet the provisions of MGDD 2019, paragraph 2.5 to be treated as military expenditure.

Deadline: April 2022 EDP notification.

Action point 2021/21

CYSTAT will investigate the maturity of the trade credit assets related to military equipment and, if needed, modify accordingly the recording in the EDP and GFS tables.

¹⁶ The action point 2021/20 was implemented during the April 2022 EDP notification.

Deadline: April 2022 EDP notification.

Action point 2021/22

CYSTAT will investigate the data of the delivery of military equipment reported in the COFOG and inform Eurostat about the reasons for the differences between COFOG and EDP Questionnaire table 7.

Deadline: April 2022 EDP notification.

4.3. Recording of specific government transactions

4.3.1. Recording of government measures undertaken in the context of COVID-19

Introduction

CYSTAT has provided a detailed explanatory note on Government measures undertaken in the context of COVID-19 during the April and October 2021 EDP notifications. According to the information from EDP Annex 8 (COVID-19 supplementary table), the government spent EUR 635.8 million for COVID-19 related measures.

Discussion and methodological analysis

CYSTAT's presentation about COVID-19 measures was very detailed and provided much information. The data source for Annex 8 is the Treasury of the Republic of Cyprus (FIMAS) and the Ministry of Finance. Annex 8 is provided to Eurostat on a quarterly basis. Measures with negative impact on revenues were: the reductions of the VAT rates, the suspension of increase of General Health System contributions and the revenue loss due to the special subsidization scheme. Fines collected due to violation of the COVID-19 measures had a positive impact on S.13 revenues. The highest expenditures related to suspension schemes, subsidization scheme for small enterprises and self-employed, the strengthening of the public healthcare and small business support. The loan granted to HERMES airport LTD was recorded as a financial transaction (loan asset) and the SURE loan as a liability.

Eurostat inquired about VAT deferrals introduced in the second semester of 2020 extended until April 2021. CYSTAT provided more information about the recording of deferred amounts: CYSTAT uses a 2 months time adjustment method for accrual VAT calculations, thus the revenues of 2020 were increased by EUR 20 million received in 2021. Eurostat pointed out that there should be EUR -20 million reported in Q2 of 2021 in the table 8.1.

Concerning the loan granted to Hermes Airport Ltd, CYSTAT did not have any indication that it will not be repaid.

Regarding the SURE loan, according to CYSTAT's presentation, the total face value is EUR 603.0 million and the actual amount disbursed (issuance price) is EUR 615.5 million. Eurostat pointed out that the discount/premium should not have any impact on B.9/B.9f at inception and that discount/premiums should then be amortised over the lifetime of the loan.

It was also explained that, during COVID-19, the Central Bank of Cyprus did not pay dividends to government based on the recommendations of the European Central Bank. This should be presented as negative revenue in the COVID-19 table.

Findings and conclusions

Action point 2021/23¹⁷

Regarding government measures undertaken in the context of the COVID pandemic, CYSTAT will update the EDP Annex 8 (Supplementary table for reporting measures taken in the context of the COVID-19 pandemic) correctly reflecting the differed VAT in the quarterly data.

Deadline: April 2022 EDP notification

Action point 2021/24¹⁸

CYSTAT will revise the EDP Annex 8 for SURE loans.

Deadline: April 2022 EDP notification

Action point 2021/25¹⁹

CYSTAT will report the lost income from dividends not paid by the Central Bank of Cyprus due to the COVID-19 pandemic in the EDP Annex 8.

Deadline: April 2022 EDP notification

4.3.2. Recovery and Resilience Facility

Introduction

The Recovery and Resilience Plan for Cyprus was approved by the EC on 20 July 2021. According to the plan, the government of Cyprus will request EUR 1 billion of grants and EUR 227 million of loans from the RRF.

¹⁷ The action point 2021/23 was implemented during the April 2022 EDP notification.

¹⁸ The action point 2021/24 was implemented during the April 2022 EDP notification.

¹⁹ The action point 2021/25 was implemented during the April 2022 EDP notification.

CYSTAT completed and submitted Annex 9 during the October 2021 notification. Expenditure related to RRF were reported for 2020 without impacting government B.9 (not neutralised). Part 2 of the RRF table was completed too.

The main data provider for the RRF expenditure is the Treasury of the Republic. The information system on the RRF has been set up in order to meet the requirements of the RRF regulation.

Discussion and methodological analysis

CYSTAT informed that the RRP (Cyprus's Recovery and Resilience Plan) was prepared for a number of measures, investments and reforms. They are implemented by the central government, by other semi-government bodies, by other government bodies, by local authorities or even by SME's or corporations. Not all RRF expenditure will pass through FIMAS (and consequently the ERP - computerized enterprise resource system) accounting system. There are about 14 implementing bodies outside central government (universities, local authorities, water boards, and sewage bodies). Their RRF expenditure will be monitored and verified when implementing the milestones of the targets. The EC will reimburse the expenditure based on milestones. Thus, CYSTAT will have a track record through the dedicated monitoring information system for the RRP. Eurostat inquired about the coverage of the RRF table sent during the October 2021 EDP notification and about how CYSTAT will implement the neutralisation of the RRF expenditure. CYSTAT explained that the table included data concerning all implementing bodies (14 units) and it was based on the plans which were presented to the EC.

Eurostat recalled the rules concerning the neutralisation of the RRF flows. As agreed by the EDPS WG, the 2020 RRF expenditure should not be neutralised, however for the following years the neutralisations of RRF grants should be applied. The final discrepancy (if any) between amounts received from the EC and amounts spent will be dealt with once the RRF is over. CYSTAT informed that, as the submission of expenditure will be based on the forecasted cost of exercise up to year 2026, there is the possibility that the government of Cyprus can spend more than what it will receive from EC. However, Eurostat repeated that an expenditure, impacting B.9, should be booked if the EC deems that a submitted expenditure will not anymore be reimbursed. This will probably be decided at the end of the RRF program. Eurostat also recalled that it is important to monitor the expenditure not only on a yearly basis, but also on a quarterly basis. CYSTAT informed that the submission for the EC will be bi-annual, however they will have quarterly data for the quarterly internal monitoring.

Findings and conclusions

Action point 2021/26

CYSTAT will monitor RRF expenditure in order to properly neutralize them in 2021 and following years.

Deadline: April 2022 EDP notification

4.3.3. Government interventions to support financial institutions (KEDIPES)

Introduction

KEDIPES is a defeasance structure classified in the general government created after the restructuring of the Cyprus Cooperative Bank Ltd. (CCB). Part of the CCB assets and liabilities was sold to the Hellenic Bank in 2018. The government granted a guarantee (Asset Protection Scheme) on the loans sold. The loans which were sold were mainly performing loans (only EUR 0.5 billion were non-performing and the majority had collateral). At inception, the cost of the guarantee was estimated at EUR 155 million, which Eurostat requested to be recorded at inception (in 2018) as an expenditure. The rest of the CCB assets and liabilities was transferred to KEDIPES.

In October 2018, CYSTAT accepted EUROSTAT's calculations concerning KEDIPES accounts and recorded an impact on B.9, amounting to EUR 1.5 bn., in the 3rd quarter of 2018 (the debt impact was EUR 3.542 bn.). Within one year after the creation of the defeasance, the initial estimate was revised based on more recent information.

Since the EDP dialogue visit in 2019, there were additional changes in the KEDIPES accounts:

- Modification of the calculation of the transactions and revaluation of the Non-Performing Loans (NPLs). For NPLs it was agreed to record only 20.94% of the total interest of NPLs aligned with the value of NPL.
- In the case of Debt-to-Asset swaps, it was agreed that the acquisition of real estate assets (realisation of loan collateral) was to be recorded as P.51g (buildings) or NP (land) and would hence lead to a negative impact on B.9. In the case of a disposal of these assets, a positive impact would be recorded on B.9.
- The issue of the migration from NPLs to Performing Loans (PLs) and vice versa led to the modification of the calculation in the transactions of PLs.
- Inclusion in the estimation of B.9NF of the D.41 expenditure of KEDIPES due to the interest payable on the Government deposit to KEDIPES. The D.41 revenue of the budget was already included via FIMAS and the inclusion of D.41 expenditure led to a negative impact on B.9NF.

Discussion and methodological analysis

The main aim of KEDIPES was to manage the assets of the x-CCB which were not transferred to the Hellenic bank (about EUR 8253 million in nominal value) when KEDIPES started its operations in 2018. The main task of KEDIPES is to collect as much cash as possible

in order to maximise the repayment of the State aid. By the end of September of 2021, KEDIPES collected EUR 1.1 billion of cash. KEDIPES will be making a payment in kind to the State as well. Properties of the value of about EUR 140 million will be transferred to the State after the completion of the relevant procedures. According to the plans, KEDIPES will be transformed into the National Asset Management Company (NAMC) and ‘Project Ledra’ to deal with the potential sale of a performing loans portfolio up to EUR 476 million. NAMC is initiated by the Ministry of Finance. Until it will be implemented, KEDIPES will keep its current role: collect as much cash as possible on a quarterly basis. An important component of the transformation will be the introduction of an MTR (mortgage to rent) product, the parameters of which (like the subsidisation of the rental for vulnerable categories of the population) will be developed by the government with KEDIPES’ participation.

Eurostat inquired about the financial statements of KEDIPES as until now KEDIPES has not produced audited financial statements. The latest financial statements of SEDIPES (the holding company of KEDIPES) was issued only in 2016, and the audit for financial statements of 2017 and 2018 was completed in 2020; however, there are still some pending approvals related to assets transfers in 2018, thus 2017 and 2018 financial statements are still not final. A new audit company is already selected for the 2019 and 2020 financial statements, but there are still some procedures to finalise. KEDIPES issues and publishes the Reports, and also provides quarterly non audited accounts (financial results, full balance sheets, profit and loss statements, without cash flows statement, the latest is substituted by the Report) to the MoF. CYSTAT has access to this information and uses it for EDP and GFS statistics.

KEDIPES’s operations and data were also discussed. Eurostat asked for more information about the sales of the participation of Altamira Cyprus to Altamira Spain for EUR 4.5 million. CYSTAT explained that Altamira was created at the end of 2017 in Cyprus (owned 51% by Altamira Spain and 49% by CCB). The fee and dividends structure was such that CCB would benefit from any new business earned in Cyprus. According to one of the commitments, the sale of the shares in Altamira Asset Management (Cyprus) Limited from SEDIPES to Altamira Asset Management S.A. were approved. The sale price was agreed at EUR 4.5 million. In KEDIPES’ balance sheet it was recorded as income. Eurostat reminded that, according to ESA 2010 rules, the disposal of equity does not constitute an income and should be reflected only in the financial transactions. CYSTAT confirmed that, at the moment, no transactions in equity are recorded (only under revaluations) in KEDIPES accounts, but the issue will be corrected when the additional information is provided by KEDIPES.

Eurostat also asked about the exact division of tasks between KEDIPES and SEDIPES, and if SEDIPES has operational expenses. SEDIPES is the legal entity of the former CCB. SEDIPES is the holding company of KEDIPES (100 % of KEDIPES’ shares belongs to SEDIPES). On 1 September 2018, all assets and personnel were transferred from SEDIPES to KEDIPES. All liabilities were transferred to KEDIPES. KEDIPES will, on a quarterly basis, settle liabilities of

KEDIPES and SEDIPES and it will repay any settlement of the state aid. The assets, however, are still held by SEDIPES because the agreement of government is pending, but the asset manager is KEDIPES. There is no staff in SEDIPES. In the future, KEDIPES will be an independent company managing the assets and repaying the state aid. The KEDIPES data provided by CYSTAT include also SEDIPES costs.

Eurostat also pointed out that consolidated data on KEDIPES loans assets towards municipalities for 2019 was not the same as in the presentation of KEDIPES. CYSTAT agreed and the issue will be resolved.

CYSTAT confirmed that they have detailed information on KEDIPES' payable interest. This information (the principle of state aid and interest accrued) is available in KEDIPES accounts provided to CYSTAT. CYSTAT will also check if the interest is consolidated between the budget and KEDIPES.

Findings and conclusions

Action point 2021/27

CYSTAT, together with EUROSTAT, will continue to examine the accounting implications of the operations of KEDIPES in order to ensure a correct recording in government accounts. In order to facilitate the compilation of EDP and GFS accounts, the additional source data will be provided to CYSTAT by KEDIPES. A full matching of consolidating loans will be assured.

Deadline: continuous.

4.3.4. The reform of National Health System

Introduction

The General Health System (GHS) in Cyprus has been gradually introduced as of 1 June 2019. GHS is a comprehensive healthcare system that offers equal access to healthcare services for all citizens, with the option to choose their healthcare provider from both the private and the public sector. There are two main units of GHS: Health Insurance Organization (HIO) and State Health Services Organization (SHSO).

HIO

HIO was established for the implementation of GHS in the Republic of Cyprus. HIO is classified in S.1314. HIO is the manager of the GHS funds that come from contributions, co-payments, personal contributions, donations and legacies, income from assets of the HIO and any other

income accrued from the activities of the HIO. The contributors²⁰ categories are employees, employers, State, self-employed, pensioners, income-earners, Government Officials, and persons responsible for the payment of remuneration to Government Officials. The government contributes to the system both as an employer and as a third party, with contribution rates of 1.85% and 1.65%, respectively. As of 1 June 2020 onwards, the contribution rates were increased to 2.9% and 4.7% respectively, following the introduction of the second stage of the GHS, which includes the provision of hospital services. The main expenditure of HIO is payments to private providers (doctors, laboratories, pharmacies, hospitals) and payments to SHSO for the services provided.

SHSO

SHSO (S.1311) was established by virtue of the Law No 73(I) 2017 and has the responsibility for the operation, management, control, monitoring and development of public hospitals and primary healthcare centres. There are 9 public hospitals and 38 health centres managed by SHSO. The main income of SHSO is payments from HIO for provided services and transfers from the budget (according to the Law, the State is obliged to make transfers to SHSO to cover its deficit during the first 5 years from 2019).

Discussion and methodological analysis

CYSTAT uses the data received from HIO for compilation of EDP/GFS of S.1314. This data is on an accrual basis and CYSTAT does not do any adjustments. Eurostat asked to provide more information on the accrual method for recording social contributions, which is applied by HIO. HIO records the revenue of social contributions on an accrual basis in the annual financial statements. For example, the contributions not collected, but due to be collected in December are accrued and recorded according to the accounting rules in the annual financial statement, which is prepared six months after the end of the year. The expenditure is also recorded on an accrual basis. HIO receives the social contributions from three different departments: the majority of contributions are collected and transferred by the Social Insurance Services Department (contributions for employed persons, self-employed persons, pensioners), while another part is transferred by the Treasury Department (contributions for government employees' salaries and former (pensioners) government employees) and, finally, the Tax Department transfers contributions related to other income. Each department provides information about contributions to HIO every month. This information covers the contributions, which are collected and are due to be paid to HIO. Thus, HIO knows the exact amounts which were received or are to be received in the appropriate period. For example, the contributions which have to be collected in December but are collected later are recorded as provisions in the HIO financial statements of December. These provisions in the HIO financial statements are based on information received from departments, thus there is no need to do adjustments for the amounts unlikely to be

²⁰ https://www.gesy.org.cy/sites/Sites?d=Desktop&locale=en_US&lookuphost=/en-us/&lookuppage=hiofinancing

collected. Eurostat requested that in HIO's accounts the other accounts receivable are split ("provisions") into social contributions and other amounts receivable and to provide this information to CYSTAT (AP 2021/28). Furthermore, a correct consolidation of AF.8 between HIO and SISD, the Treasury Department and the Tax Department had to be assured. Sometimes HIO has to make refunds for social contributions – according to the legislation, any contributions paid on income above 118 thousand euros per year are refundable. In this case, HIO records these refunds when they are paid, but after the end of the year HIO records the accrued amounts of refunds based on the applications for the refunds – these amounts are HIO's payables. HIO will provide CYSTAT with a split of payable amounts into social contributions and other amounts payable (AP 2021/28).

As the large majority of social contributions (80 – 85 %) is collected by the Social Insurance Services, Eurostat inquired about the delay between the moments when cash is collected by Social Insurance Services and transferred to HIO. It was confirmed that, usually, the delay is 2.5 months: Social Insurance Services collect social contributions within 1 month and later on it takes 1.5 months to transfer them to HIO. The delay in passing on the contributions for HIO should be reflected in other accounts payable of SISD and other accounts receivable of HIO, while the TAC for social contributions should be reflected adequately in questionnaire for taxes and social contributions and in the EDP/GFS.

Concerning the contributions received from the Treasury Department, they are transferred more promptly: the delay is one week. Eurostat remarked that, also in this case, there should be some adjustment (other accounts payable of S.1311, other accounts receivable of S.1314).

A first adjustment concerns non-government employers, whose contributions are collected within one month by Social Insurance Services and transferred to HIO only after 1.5 month. As HIO records receivable for contributions not received by HIO in the annual financial statements, in this case Social Insurance Services should record a payable for the same amounts, which are collected on behalf of HIO but not yet transferred (AP 2021/30).

Another adjustment is related to social contributions paid by the State. Eurostat requested more information on revenue received from the State as a third party and on the adjustment in the EDP table 2A. It was explained that the State pays additional amounts on social contributions, which are paid by employer or employee, or pensioner to HIO. The adjustment in the EDP table 2A reflects the difference between the cash paid by the Government and the accrual of HIO. This adjustment is related to the social contributions paid by the State as a third party. This adjustment does not include the correction related to social contributions paid by the Government as an employer. When the government pays social contributions as an employer, there is also a time lag of one week, thus if HIO records such amounts as receivables, the government should record the same amount as payables. Otherwise, a discrepancy would appear. CYSTAT will investigate this issue and inform Eurostat about the results (AP 2021/29).

Findings and conclusions

Action point 2021/28

CYSTAT will check and revise the recording of other accounts receivable and payable for social contributions, relating to the Health Insurance Organisation in the EDP Questionnaire tables 5 and 4. The breakdown of data needed for the revision will be shared by HIO with CYSTAT. The time of recording (other accounts within government) of other social contributions collected centrally will also be revised. Consequently, an update of the questionnaire for taxes and social contributions will be assured.

Deadline: December 2021 / April 2022 EDP notification.

Action point 2021/29

CYSTAT will investigate the time of recording between the amounts collected by HIO from the State as employer and paid by the State and revise the relevant data accordingly.

Deadline: April 2022 EDP notification.

Action point 2021/30

CYSTAT will check whether the amounts collected by Social Insurance Fund (SIF) on behalf of the Health Insurance Organisation are included in the deposits of SIF and recorded in other accounts payable of the SIF with correct consolidation.

Deadline: April 2022 EDP notification.

4.3.5. Guarantees

Introduction

According to the EDP Inventory²¹, government provides guarantees mostly to public, semi-public entities and local authorities. Detailed information is provided by the Annual Financial Report Statement 4.3 (in the Annual Financial Report of 2020 it is Statement 3.3). Guarantees provided by government are treated in national accounts as contingent liabilities unless the guarantee is called. Cases of debt assumption at inception have not been observed so far. All guarantees called are considered capital transfers (expenditure) and are attributed to the year when the guarantee is activated. Repayments by the original debtor/third party are recorded as revenue in public accounts and as capital transfers in national accounts. The case of *write-offs* is considered as a capital transfer and therefore part of the expenditure of the State. Data

²¹ EDP Inventory of Cyprus, pages 59-62

concerning write-offs are provided by the Public Debt Management Office (PDMO), which regularly assesses the non-performing loans guaranteed by the State and the amounts of non-performing loans that could be called.

Information on standardised guarantees is obtained from the Ministry of Finance. All guarantees are monitored by MoF.

Discussion and methodological analysis

CYSTAT confirmed that local governments do not provide guarantees. According to the Annual Financial Statement of Cyprus, the government has some guarantees provided to SEDIPES. CYSTAT clarified that the guarantees granted to SEDIPES are guarantees to the Hellenic bank. Guarantees for the European Financial Stability Facility (EFSF) are reported in the Table 9 of the EDP Questionnaire, however they should not be reported in the Table 9.1.

According to the information of the European Commission, the EC has provided a EUR 1 billion to the Cypriot scheme aimed at giving support to enterprises and self-employed in the context of the coronavirus outbreak. It was approved in August of 2021. CYSTAT informed that the scheme is very new and has not yet materialised.

Findings and conclusions

Action point 2021/31²²

CYSTAT will update the EDP Questionnaire Table 9.1 and exclude guarantees to EFSF.

Deadline: April 2022 EDP notification.

Action point 2021/32

CYSTAT will monitor and correctly record (assessing whether they are one-off or standardised) the guarantees issued by the new scheme approved by EC in 2021 to support enterprises and self-employed individuals.

Deadline: an assessment of the measure, before the April 2022 EDP notification and continuous, when the scheme will start to work.

4.3.6. Debt assumptions, claims, debt cancellations and debt write-offs

Introduction

Debt assumptions

²² The action point 2021/31 was implemented during the April 2022 EDP notification.

According to the information of CYSTAT, there are no debt cancellations and debt write-offs for the period 2017 – 2020. As regards debt assumptions, in 2018 the central government assumed the debt of local authorities' vis a vis the ex-CCB amounting to EUR 179 million (174 million at end-2018). It was recorded as a capital transfer in each subsector and consolidated at the level of the general government.

Discussion and methodological analysis

Eurostat thanked for the updated table on claims which was provided just before the dialogue visit. The table showed that Table 8 of the EDP Questionnaire is not correctly completed: the foreign claims and the public corporation claims are missing. CYSTAT will investigate the issue on municipalities' claims and inform Eurostat. The consolidation will also be checked, as the reporting in Table 8 relates to operations on assets of consolidated central government.

Eurostat pointed out that the information in the EDP Questionnaire Table 8 should be consistent with ESA table 27 (A)F.4 assets of central government, including by counterpart (for example (A)F.4 assets against S.11, S.12, S.14, S.15 should be consistent with the claims against public corporations and other claims; similarly, (A)F.4 assets of S.1311 vis-à-vis S.2 should be consistent with the foreign claims.

Findings and conclusions

Action point 2021/33

CYSTAT will revise and correctly complete the EDP Questionnaire table 8.1 related to foreign claims, claims against municipalities and claims against public corporations. CYSTAT will check the consolidation of the claims within the central government. Consistency with counterpart data reported in ESA table 27 and with loans consolidating with other government subsectors shall be ensured.

Deadline: April 2022 EDP notification.

4.3.7. Capital injections in public corporations

Introduction

According to the list of capital injections, sent by the Cypriot authorities, there is only the KEDIPES' capital injection recorded in 2018.

Discussion and methodological analysis

Before the dialogue visit, CYSTAT informed that the capital injections reported in EDP questionnaire table 10.1 refer to capital transfers to non-government units. The relevant correction will be made in the April 2022 EDP Notification.

Findings and conclusions

Action point 2021/34²³

CYSTAT will correctly report the capital transfers to the non-government units in the EDP Questionnaire table 10.

Deadline: April 2022 EDP notification.

4.3.8. Dividends, super dividends

Introduction

According to the EDP Inventory, the data source on dividends received by the government is FIMAS. Dividends are recorded as revenue in FIMAS, which are recorded as D.42 (property income receivable) by the GFS Section, after the super-dividend test is carried out. Interim dividends are also classified under D.42. Regular dividends are paid by the Central Bank and Cyprus Telecommunications Authority. The adjusted distributable income (after tax) of these two organisations are examined by CYSTAT in order to assess that no super-dividends are attributed. It should be noted that there are no cases of dividends between subsidiaries/holdings.

Discussion and methodological analysis

Eurostat asked to confirm that the profitable public corporations (like the Electricity Authority of Cyprus, the Cyprus Ports Authority, and the Housing Finance Corporations) do not have the obligation to pay dividends to the State. CYSTAT explained that it is a policy decision that these companies do not need to pay dividends and there are no others payments to government by these corporations.

4.3.9. PPP, concessions and Energy Performance Contracts (EPC)

Introduction

Public Private Partnerships (PPPs)

According to the EDP Inventory²⁴ a detailed description for each PPP project is provided by the National Treasury. All conditions are thoroughly examined according to the Eurostat guidelines.

²³ The action point 2021/34 was implemented during the April 2022 EDP notification.

²⁴ EDP Inventory of Cyprus, page 65

A mechanism between the GFS Section, the Directorate General for European Programmes, Coordination and Development, MoF and the Treasury of the Republic of Cyprus exists in order to monitor the projects.

Prior to the mission, CYSTAT informed that the ongoing PPP contracts undertaken by government are: the Dekelia desalination plant, the Larnaka desalination plant and the Lemesos desalination plant. The contractual capital value (the cost of investment referred to in the contract) of the 3 PPPs reported for last two EDP notifications (April 2021 and October 2021) was EUR 79.6 million.

Concessions

The information on concession contracts is provided by the Treasury of the Republic and is regularly assessed by CYSTAT. The assets under concessions are not classified in the government balance sheet and the government does not finance the majority of the construction cost under any concession.

In the note sent before the mission, CYSTAT informed about 6 ongoing contracts undertaken by government: *Larnaca and Paphos Airport, Limassol Port, Limassol Marina, Ayia Napa Marina, Paralimni Marina and Larnaka Port and Marina*. Revenues collected from these concessions is classified as P.1 (Output) according to ESA 2010 methodology.

Discussion and methodological analysis

CYSTAT confirmed that there are no changes concerning the old PPPs.

Eurostat asked to provide more information about two new concessions: *Paralimni Marina and Larnaka Port and Marina*. CYSTAT informed that the concession contract for Paralimni Marina was signed in 2018, the duration of this concession is 125 years; while the value of the project is EUR 85.9 million and the concessionaire is a private company. According to the agreement, the construction of a brand new asset – a Marina – is foreseen. The payments to government will be annual and fixed, but every 10 years they will be adjusted. Eurostat pointed out that such a duration of the concession (125 years) indicates that it should not be treated as a concession, but as rent of land. The duration of the concession should be proportional to the duration of the economic life of the asset. After 125 years, the asset will be returned to government. The same duration of 125 years is indicated for another concession: Port and Marina Larnaca. The same concerns apply.

Findings and conclusions

Action point 2021/35

CYSTAT will double check the details concerning two concessions with an unusual duration of 125 years each and reclassify them, if confirmed, as land leases.

Deadline: April 2022 EDP notification.

4.3.10. Emission trading permits

Introduction

CYSTAT records revenues from the Emission trading permits on a cash basis. The revenue for the Emission Trading Permits is received by the Ministry of Agriculture, Rural Development and the Environment and is classified as D.29r.

Discussion and methodological analysis

CYSTAT clarified that, so far, they used cash recording for the emission trading permits. The amounts have been growing during last three years. Until 2018 a large part of the emission rights was given for free to the Electricity Authority. The Electricity Authority buys these rights for its own use. CYSTAT made the assumption that the rights are used in the current or in the forthcoming year and decided to use the time adjusted cash of t+1 year. Eurostat agreed with such an approach.

Findings and conclusions

Action point 2021/36²⁵

CYSTAT will change the recording of the Emission Trading Permits by applying the accrual method (one-year time lag).

Deadline: April 2022 EDP notification.

4.3.11. Others: Privatisation, sale and leaseback operations, UMTS, securitisation

Mobile phone licenses

Introduction

UMTS licences' sales have been recorded in 2004, 2014, 2016 and 2019 in Cyprus' national accounts. The payments have been classified as D.45 (rent) spreading the impact of B.9 over the duration of the license period. All licences have a duration of 10-years.

A public procurement regarding granting of rights to use the radio frequency spectrum (700 MHz, 3.6 GHz, 26 GHz) for 5G broadband licenses was concluded at the end of 2020 and four

²⁵ The action point 2021/36 was implemented during the April 2022 EDP notification.

5G licenses (CYTA, EPIC, PRIMETEL PLC and CABLENET) were issued to be used as of 2021. The duration of all licences is 20 years. The total amount for all 4 licences is EUR 45.2 million. The advance was received in 2020 from CYTA and an appropriate recording was applied in the national accounts: in 2020' EDP data (Table 2A) CYSTAT has recorded the negative amount of EU 12 million of UMTS under Other accounts payable.

Discussion and methodological analysis

CYSTAT confirmed that only for one contract an advance was received. In case of other new contracts, no prepayments are foreseen.

Annex 1 - Agenda of the EDP dialogue visit to Cyprus, 11-12 November 2021

Statistical institutional issues

- 1.1. Review of institutional responsibilities in the framework of the EDP data reporting and government finance statistics compilation**
 - 1.1.1. Institutional cooperation and EDP processes
 - 1.1.2. Quality management framework
 - 1.1.3. Audit and internal control arrangements
- 1.2. Data sources and revision policy, EDP inventory**
 - 1.2.1. Changes in data sources and revision policy
 - 1.2.2. Compliance with the Council Directive 2011/85
 - 1.2.3. EDP Inventory
- 2. Follow-up of the previous EDP dialogue visit of 23-24 May 2019**
- 3. Analysis of the EDP tables – follow up of the October 2021 EDP notification**
- 4. Methodological issues**
 - 4.1. Delimitation of general government sector, application of market/non-market test in national accounts**
 - 4.1.1. Changes in sector classification since the last EDP dialogue visit
 - 4.1.2. Practical implementation of the market/non-market test and of qualitative criteria
 - 4.1.3. Government controlled entities classified outside the general government sector
 - 4.2. Implementation of accrual principle**
 - 4.2.1. Taxes and social contributions
 - 4.2.2. Interest
 - 4.2.3. EU flows
 - 4.2.4. Military expenditure
 - 4.3. Recording of specific government transactions**
 - 4.3.1. Recording of government measures undertaken in the context of COVID-19
 - 4.3.2. Recovery and Resilience Facility
 - 4.3.3. Government interventions to support financial institutions (KEDIPES)
 - 4.3.4. The reform of National Health System
 - 4.3.5. Guarantees
 - 4.3.6. Debt assumptions, claims, debt cancellations and debt write-offs
 - 4.3.7. Capital injections in public corporations
 - 4.3.8. Dividends, super dividends
 - 4.3.9. PPPs, concessions and energy performance contracts (EPC)
 - 4.3.10. Emission trading permits
 - 4.3.11. Others: privatization, sale and leaseback operations, UMTS, securitisation
 - 4.4. Issues relevant for the April 2022 EDP Notification**
- 5. Any other business**

Annex 2 – List of participants to the EDP dialogue visit

Statistical Service of Cyprus (CYSTAT) - National Accounts and GFS division

Mr Vasilis CHAILOS – Head of the National Accounts and GFS division

Mr Damianos DAMIANOU - Statistics Officer A

Mr Vasilis KOUNADIS - Statistics Officer

Ms Antigoni CHRISTODOULOU - Statistics Officer

Ms Panayiota MICHAEL - Statistics Officer

Ms Sofia PANAYIDOU - Statistics Officer

Ministry of Finance (MoF) of Cyprus - Directorate of Economic Research and EU Affairs

Ms Nayia POSPORI – Economics Officer A

Central Bank of Cyprus - External, Economic and Government Finance Statistics

Mr Antonis MICHIS - Officer A

Treasury of the Republic of Cyprus

Mr Marios HADJIDAMIANOU - Senior Accountant

Ms Stavri TFOFA - Senior Accountant - Head of Verifications and Certification Directorate

KEDIPES

Mr Andreas XIPSITIS - Manager - Financial Services Department

Mr Lambros PAPALAMBRIANOU - Manager - Finance Division

Health Insurance Organisation

Mr Andreas PAPACONSTANTINOU

Mr Angelos TROPIS

Eurostat

Mr Luca ASCOLI – Director, Directorate D – Government Finance Statistics

Mr Jukka JALAVA – Head of Unit D3 – Excessive Deficit Procedure (EDP)2

Ms Olga LESZCZYNSKA LUBEREK – Unit D1 – Excessive Deficit Procedure and methodology

Ms Laura Wahrig – Unit D1

Mr Stylianos PANTAZIDIS – Unit D3

Ms Gedmine JONIUNE – Unit D3

DG ECFIN

Ms Paulina ROGOWSKA

Ms Anna LAUDWEIN

ECB - SFS\ESSA Division - DG-Statistics

Mr Robert GADSBY - Principal Economist-Statistician