



EUROPEAN COMMISSION  
EUROSTAT

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

Luxembourg, 9 January 2013

## **- FINAL FINDINGS -**

### **EDP dialogue visit to Cyprus**

**26 September 2012**

## **Executive summary**

*Eurostat conducted an EDP dialogue visit to Cyprus on 26 September 2012 with the aim to review statistical organisation issues, analyse the EDP tables of the October 2012 notification and examine methodological issues relating to the recording of specific government transactions.*

*Regarding statistical organisation issues, the Cypriot statistical authorities informed Eurostat that there have been no changes in the responsibilities of the institutions involved in EDP reporting. It was also pointed out that discussions on a memorandum of understanding among the three institutions are in progress and are expected to conclude by the end of 2012.*

*It was agreed that the existing EDP inventory will be updated for certain important issues and will be sent to Eurostat by 19 October 2012 while the timetable of transmission of the new inventory to Eurostat will be bilaterally agreed.*

*Eurostat was informed that the very important project of introducing the FIMAS-uniform code system to local government financial reporting is in progress and CYSTAT will send a note on this issue to Eurostat.*

*CYSTAT agreed to change the presentation of EDP tables 2C and 2D in order to improve their information content. Furthermore, the amounts recorded under issuances above and below nominal value and their link with EDP table 3B will be clarified.*

*CYSTAT will investigate data on loans and all other financial assets which coincide in EDP Tables 2A and 3B and provide evidence to Eurostat that this is justified.*

*CYSTAT will reconcile the reported figures between the cash working balance of EDP Table 2A and the movements in currency and deposits in EDP Table 3B for the EDP reporting period.*

*CYSTAT will examine the institutional arrangements for the ownership of the special account related to transactions with the EU budget.*

*CYSTAT will investigate the arrangements regarding the flow of payments from the EU special account to government accounts which are based on expenditures made by government and will clarify the recording of the EU related flows in EDP T2A (working balance) and in EDP T3B under currency and deposits.*

## **Introduction**

In accordance with the Council Regulation (EC) No 479/2009 as amended by Council Regulation (EU) No 679/2010 as regards the quality of statistical data in the context of the excessive deficit procedure, Eurostat carried out an EDP dialogue visit with Cyprus on 26 September 2012.

Eurostat was represented by Mr. John Verrinder, Ms. Viera Karolova, and Mr. Stelios Pantazidis. Representative of DG ECFIN and the European Central Bank (ECB) participated in the meeting as observers. The Cyprus statistical authorities were

represented by the National Statistical Institute (NSI), the Ministry of Finance (MoF), and the Central Bank of Cyprus (CBC).

The aim of this visit was the examination of issues relating to statistical organisation, the analysis of the October 2012 EDP notification, as well as the examination of methodological issues relating to the recording of specific government transactions.

Eurostat thanked the Cyprus authorities for their excellent cooperation and provision of very extensive relevant background material. The last EDP dialogue visit was in 2010.

## **1. Statistical organisation issues**

### **1.1 Institutional responsibilities**

#### *Introduction*

The National Statistical Institute (CYSTAT) is responsible for the compilation of data on actual deficit while information on planned deficit and actual and planned debt are produced by the Ministry of Finance. The involvement of the Central Bank is restricted to providing only some of the source data.

#### *Discussion*

Eurostat was informed that there has been no change in the institutional responsibilities. The tasks for EDP reporting are shared by the National Statistical Institute (CYSTAT) and the Ministry of Finance (MoF), while the Central Bank of Cyprus (CBC) provides some of the source data. The Cyprus statistical authorities pointed out that discussions on a memorandum of understanding are in progress and are expected to conclude by the end of this year.

Eurostat took note of the budgetary constraints that CYSTAT is faced with, which creates difficulties for any increase in the available resources of the GFS department. Eurostat was also informed that there are currently no back-up arrangements in the domain of GFS.

#### *Findings and conclusions*

Eurostat took note that the low level of resources available in CYSTAT for GFS work creates a substantial risk for the continued timeliness and quality of GFS data.

A copy of the Memorandum of understanding concerning the cooperation of the institutions involved in the EDP reporting will be sent to Eurostat when it is finalised.  
**(Action point 1)**

## 1.2 EDP Inventory

### *Introduction*

The consolidated EDP inventory of sources and methods of Cyprus (September 2007) is published on Eurostat's website. The inventory provides information on data availability and data sources for all subsectors of the general government sector.

### *Discussion*

CYSTAT informed Eurostat that the agreement during the previous EDP dialogue visit to Cyprus (December 2010) to update specific parts of the EDP inventory was not completed, mainly due to lack of resources. A new list of public corporation will be added to the existing inventory. Eurostat reminded the statistical authorities of Cyprus of the new EDP inventory and the deadlines for its submission and publication. It was agreed that the two institutions will coordinate for defining the timetable of transmission of the relevant documents.

### *Findings and conclusions*

The existing EDP inventory will be updated for certain important issues and will be sent to Eurostat by 19 October 2012 EDP. (**Action point 2**)<sup>1</sup>

Eurostat and CYSTAT will bilaterally agree by end November 2012 on the timetable of transmission of the new inventory to Eurostat (**Action point 3**)

## 1.3 Data sources

### *Introduction*

The State budget is the main data source for compiling the accounts of the **State**. The data reported in the Budget are on a cash basis. All information regarding the transactions of the State is obtained from the National Treasury. The Statistical Service has on-line access to the National Treasury accounts, having thus the ability to monitor all transactions on a daily basis. Budget reporting is also the main data source for the compilation of the accounts of the extra-budgetary funds. Information on the net lending/net borrowing of the **Local Government** is obtained directly from the municipalities and community boards. Information on the accounts of the sub-sector **Social Security Funds** is obtained from the audited accounts of the Ministry of Labour and Social Insurance.

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<sup>1</sup> This action has been completed

### *Discussion*

CYSTAT reviewed the main data sources used for the compilation of government accounts reported in EDP tables. For central government data are obtained from (a) the Annual Financial Report (prepared by the Treasury) for currency and deposits, loans and securities, (b) the Financial Information Management Accounting System (FIMAS) for all transactions of central government excluding the non-market semi-government organisations which constitute a subsector of central government, and (c) the financial statements of non-market semi-government units for the transaction of the units classified in this subsector of central government. For local government the main sources are the Annual Financial Report and the Annual Financial Statements of municipalities. FIMAS is the source of information on social security funds transactions.

Regarding information on military expenditure, CYSTAT confirmed that the main source is the customs statistics for imports of military equipment and the Ministry of Defence.

### *Findings and conclusions*

CYSTAT will send a report to Eurostat by end May 2013 on the very important project of introducing the FIMAS-uniform code system to local government financial reporting. **(Action point 4)**

## **1.4 Public accounting directive No 81**

### *Introduction*

In the context of the Public Accounting system of Cyprus, the Directive No 81 provides for the exclusion of the liabilities of the State deriving from legislation. The consequence of this arrangement is that all obligations arising from legislation are considered contingent liabilities not being recorded in the Financial Report and thus not reported in the EDP tables.

CYSTAT was requested to investigate the nature and the size of obligations falling under this directive

### *Discussion*

CYSTAT reviewed the nature of this public accounting directive. CYSTAT confirmed the nature and the size of the amounts involved (mainly transaction relating to compensations for land annexation and unclaimed tax refunds) and it was agreed that all amounts relating to unclaimed tax refunds which may be claimed in the future will be deducted from future VAT payments.

### *Findings and conclusions*

CYSTAT will report to Eurostat all items under the public accounting direction No81 which might be considered as government liabilities and include them in the April 2013 EDP notification **(Action point 5)**

## **2. Statistical recording of land annexations**

### *Introduction*

In July 2012, Eurostat asked the Cyprus statistical authorities to provide an analytical note describing the issue of land annexations. In this note Eurostat was informed along all the relevant details that the stock of outstanding liabilities of the State did not include outstanding payment related to land annexations because according to legislation (see above point 1.4) those obligations were considered contingent liabilities. Eurostat responded to this analysis of CYSTAT and expressed its opinion according to which "... recording cash compensation when it is paid would be the most appropriate for the statistical treatment of this case, to ensure that government expenditure is recorded when government acquires economic ownership of the land."

### *Discussion*

Eurostat and the statistical authorities of Cyprus concluded that there were no outstanding statistical issues relating to land annexations, and Eurostat was informed that a substantial amount of annexations had been cancelled in 2012.

## **3. Financial crisis – government interventions**

Eurostat took note of the explanations of the Cyprus authorities on on-going actions with regard to the financial crisis, and notably with regard to injections into banks.

## **4. EDP reporting – analysis of the October 2012 EDP notification**

### **EDP Table 2A-2D**

#### *Introduction*

The EDP tables provided by the Cyprus Statistical Service are quite complete. During the April 2012 EDP notification no major problems were encountered regarding the recording of government transactions and the required adjustments to the reported working balance. The accruals adjustments are quite limited as most of the data are reported on an accrual basis.

#### *Discussion*

The EDP tables of the October 2010 notification were thoroughly reviewed and the discussion focused on: (a) the presentation of EDP tables 2C and 2D which will be changed to include explicitly all adjustment made to arrive at the reported working balance, (b) the need for clarifying the amounts recorded under issuances above and below nominal value (in other adjustments of EDP table 2A), (c) military liabilities in public accounting data that need to be checked to ensure that double counting of payments for military equipment is avoided, (d) the recording of disposals of assets in the accounting data of local government, (e) the need for examination of the data on loans and all other financial assets to clarify why the reported figures in tables 2A and 3B coincide.

In addition, CYSTAT provided explanations on several other issues such as the trade credits of social security funds and local government, the institutional arrangements for the special account for the transactions with the EU budget as well as the current situation regarding the EU disallowances.

### *Findings and conclusion*

CYSTAT will change the presentation of the EDP Table 2C (by October 2013) and Table 2D (by April 2013) by reporting explicitly all adjustments currently made to arrive at the working balance data, thereby fully explaining the transition between the official (Unmodified) working balance based on public accounts and EDP B9. (**Action point 6**)

CYSTAT and Eurostat will clarify the amounts recorded under issuances above and below nominal value (reported under other adjustments in EDP T2A) and explain their link with EDP Table 3B in the October 2012 EDP notification. (**Action point 7**)<sup>2</sup>

CYSTAT will check the figures for military liabilities in public accounting data (used for EDP compilation) during the October 2012 EDP notification in order to ensure that payments for military equipment are not double counted in the recording of military expenditure on a delivery basis. (**Action point 8**)<sup>3</sup>

CYSTAT will investigate in the accounting data of local government whether disposals of assets are recorded in historic costs or market prices and will report back to Eurostat by the April 2013 EDP notification. (**Action point 9**)

CYSTAT will investigate data on loans and all other financial assets and explain why the reported figures in EDP Tables 2A and 3B are identical, taking into account that some other central government bodies (not included in the working balance) perform financial activities. CYSTAT will report back to Eurostat during the October 2012 EDP notification (**Action point 10**)

CYSTAT will reconcile the reported figures between the cash working balance of EDP Table 2A and the movements in currency and deposits in EDP Table 3B for the EDP reporting period. Initially a reconciliation report should be provided to Eurostat for 2011 data during the October 2012 EDP notification, with a report for 2008-2010 data to be provided by end-2012. (**Action point 11**)<sup>4</sup>

CYSTAT and Eurostat will agree on an explanatory footnote referring to sector coverage for the stocks of trade credits reported in EDP Table 4, which will be published by Eurostat in the October 2012 EDP Press Release. (**Action point 12**)<sup>5</sup>

CYSTAT will investigate whether social security funds and local government have trade credits and report back to Eurostat by the April 2013 EDP notification. (**Action point 13**)

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<sup>2</sup> This action was partly completed

<sup>3</sup> This action has been completed

<sup>4</sup> Action 11 was partly completed

<sup>5</sup> This action has been completed

CYSTAT will send to Eurostat the full set of financial statements of the Investment Fund, for the latest available year, during the October 2012 EDP notification. (**Action point 14**)

CYSTAT will examine the institutional arrangements regarding the ownership of the EU special account and report to Eurostat during the October 2012 EDP notification. (**Action point 15**)<sup>6</sup>

CYSTAT will investigate the arrangements regarding the flow of payments from the EU special account to government accounts which are based on expenditures made by government and will clarify the recording of the EU related flows in EDP T2A (working balance) and in EDP T3B under currency and deposits. A report will be provided to Eurostat by end-November 2012. (**Action point 16**)

CYSTAT will examine and report to Eurostat on the current situation regarding EU disallowances (possible amounts involved, time of recording) during the October 2012 EDP notification. (**Action point 17**)<sup>7</sup>

### **EDP Tables 3B-3E**

#### *Findings and conclusion*

The Central Bank of Cyprus will examine the reconciliation of data between Money and Banking statistics and data for "Currency and Deposits" reported in EDP notification tables, by subsector. A report will be provided to Eurostat by end-2012. (**Action point 18**)

### **Questionnaire related to EDP tables**

#### *Findings and conclusion*

CYSTAT will update the EDP Questionnaire **Table 8.1** for stocks of loan assets and will reconcile the figures during the October 2012 EDP notification. (**Action point 19**)

CYSTAT will complete the EDP Questionnaire **Table 2** with the available details on transaction in financial assets, following the instructions to the questionnaire, during the October 2012 EDP notification. (**Action point 20**)

EDP Questionnaire **Table 9.1** will be retransmitted to Eurostat in a consolidated form during the October 2012 EDP notification, including only data on guarantees to non-general government units. (**Action point 21**)<sup>8</sup>

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<sup>6</sup> Actions 14 and 15 were completed

<sup>7</sup> This action has been completed

<sup>8</sup> Actions 19-21 were completed

## **5. Methodological issues and recording of specific government accounts**

These issues were all dealt with under agenda point 4 above.

## **6. Other issues**

The statistical authorities of Cyprus informed Eurostat that at present the government has no outstanding obligations in relation to the destruction of the Vassilikos power plant.