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Directorate C: National and European Accounts
Unit C-3: Public finance

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- FINAL FINDINGS -

EDP dialogue visit to Cyprus

4-5 December 2008

Executive summary

Eurostat conducted an EDP dialogue visit to Cyprus on 4-5 December 2008 with the aim to review all the relevant statistical organisation issues, analyse the EDP tables reported in the context of the October 2008 notification and examine methodological issues relating to the recording of specific government transactions.

Regarding the statistical organisation issue the Cypriot statistical authorities agreed to send to Eurostat a coordinated plan of the provision of ESA95-based financial accounts that will ensure the elimination of discrepancies between reported data of the same vintage. Furthermore, the Cyprus authorities agreed to update the inventory where needed after the April 2009 EDP notification.

Concerning the financial accounts, the Cyprus authorities agreed to bring fully into line the data on financial transactions reported in ESA Tables 6 and 27 with the data reported in EDP notification tables 3 for all years that will be reported in the April 2009 notification. There has been an agreement that a new presentation will be introduced by the Cyprus authorities in the April 2009 EDP notification.

The Cypriot statistical authorities agreed to complete the EDP table 2C with suitable detail for the year 2008 in the October 2009 notification while for the EDP table 2D changes regarding the reporting of the accruals effects of social contributions will be made if deemed necessary, before the April 2009 notification.

Eurostat indicated that the entry for appreciation/depreciation of debt due to foreign currency movements in EDP tables 3A and 3B should be checked. The Cyprus authorities will inform Eurostat of the results of this check before the April 2009 EDP notification. The Cyprus authorities agreed to add entries for other accounts receivable relating to social contributions in Table 3E in the next notification.

Regarding the questionnaire related to the EDP tables, the Cyprus statistical authorities agreed to complete Table 1 with information on other accounts receivable relating to social contribution and make an effort to improve the information content of Tables Va and Vb.

During the discussions on the recording of specific government accounts, Eurostat indicated and Cyprus authorities agreed that the next questionnaire on taxes and social contributions should be clearer regarding taxes marked "accrual" which are in fact measured with cash receipts.

Concerning capital injections, after a detailed discussion about the 2007 government capital injections into Cyprus Airways, Eurostat concluded that this should be recorded as a purchase of equity by government.

Eurostat found that the existing arrangements for the recording of the EU flows continue to meet the requirements of the relevant Eurostat Decision although the recording of other accounts receivable might be necessary in the future.

Regarding the PPP projects, securitisation and sale and leaseback operations, it was agreed that the Cyprus authorities will examine before the April 2009 EDP notification if entries need to be recorded in government accounts for the transfer of the airport assets to the private partner as well as the terms of the contract for the Lemesos marina.

The Cyprus statistical authorities informed Eurostat that to date there have been no problems with the Cyprus banks related to the financial crisis.

Introduction

In accordance with article 8d of Council regulation (EC) No 2103/2005 of 12 December 2005 amending Council Regulation (EC) No 3605/93 as regards the quality of statistical data in the context of the excessive deficit procedure, Eurostat carried out an EDP dialogue visit in Cyprus on 4-5 December 2008.

Eurostat was represented by Mr. John Verrinder, Mr. Jean-Pierre Dupuis and Mr. Stelios Pantazidis. A representative of the European Central Bank (ECB) participated in the meeting as observer. The Cypriot statistical authorities were represented by the National Statistical Institute (NSI), the Ministry of Finance (MoF), and the Central Bank of Cyprus.

The aim of this visit was the examination of issues relating to the statistical organisation, the analysis of the October 2008 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 2006.

1. Statistical organisation issues

1.1 Institutional responsibilities

Introduction

The Cyprus Statistical Service (CSS) is responsible for the preparation of the actual deficit data (Tables 2) whereas data on planned deficit and actual and planned debt data (Tables 3) are prepared by the Ministry of Finance. The involvement of the Central Bank is restricted to providing only some of the source data.

Discussion

The Cypriot statistical authorities informed Eurostat that the institutional arrangements for production of EDP tables in Cyprus have not changed since the last EDP dialogue visit. EDP tables 2 are compiled by the Cyprus Statistical Service, whilst EDP tables 3 are compiled by the Ministry of Finance. The Central Bank has a very minor role in provision of some data. Eurostat noted that the financial accounts for general government are compiled by the Finance Ministry, the Central Bank compiles Monetary Union Financial Accounts (MUFA) and the derogation for reporting annual financial accounts for all sectors to Eurostat expires in 2009.

Findings and conclusions

Eurostat asked the Cyprus authorities to provide in the coming weeks a coordinated plan for the provision of ESA95-based financial accounts to Eurostat, ensuring that the accounts are coordinated across institutions so that there are no discrepancies between reported data of the same vintage (Action 1).

1.2 EDP Inventory

Introduction

The consolidated 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

Eurostat pointed out that the EDP inventory for Cyprus will need to be updated for various issues – such as the lists of general government and extra-budgetary units, calculation of accrued interest, audit arrangements and the incomplete parts of section 7 on long term contracts between government and private entities.

Findings and conclusions

The Cyprus authorities agreed to update the inventory for a number of points after the April 2009 EDP notification, with perhaps an earlier update for any particularly important issues (Action 2).

1.3 Data sources

Introduction

Budget reporting is the main data source for compiling the accounts of the **State**. The data reported in the Budget are on a cash 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 units (municipalities and community boards) comprising this sector whereas the information on the accounts of the sub-sector **Social Security Funds** is derived from the audited accounts of the Ministry of Labour and Social Insurance. The CSS has direct access to the internal Treasury database (FIMAS) for receiving information on central government and social security funds statistics. Information on local government and the semi-government organisations are not provided by the FIMAS. It has been noted in the past that for some years the EDP Tables 3 were not in line with the financial accounts for general government.

Discussion

Eurostat took note of the data sources for Local Government, based on audited accruals-based accounts except for the first reporting of a year (when estimates would be used based on budgets). Eurostat intended to examine a set of Local Government accounts to check the accounting principles used. Eurostat welcomed the initiative by the Cyprus authorities to introduce unified encoding across Local Government accounts.

The Cyprus authorities explained in detail the composition and accounts of the extra-budgetary bodies and semi-government bodies. The education fund would become part of the State budget in 2008. The Cyprus authorities informed Eurostat that the Public Loans Fund has stopped extending loans to private individuals as from 1997 and is only receiving repayments of the provided loans. There had been a large operation in 2008 to pay off government debt using the sinking fund.

Findings and conclusions

With regard to financial accounts, the Cyprus authorities agreed to bring fully into line the data on financial transactions reported in ESA Tables 6 and 27 with the data reported in EDP notification tables 3 for all years reported in the April 2009 notification (Action 3).

2. EDP reporting – analysis of the October 2008 EDP notification

2.1 EDP Tables 2 and 3

Introduction

The EDP tables provided by the Cyprus Statistical Service are generally fairly complete. In fact, the adjustments are quite limited (four such adjustments are being made: for some categories of income taxes, VAT revenues, military equipment trade credits, and revenue from deposits) as most of the data are reported on an accrual basis. There have been past discussions between Eurostat and the Cyprus authorities on the best presentation of the Central Government working balance in EDP Table 2A. Eurostat reviewed all the EDP tables reported in the October 2008 notification.

a) EDP Tables 2A-2D

Discussion

After careful examination of EDP table 2A and a detailed reconciliation with the Treasury accounts, Eurostat recommended that the working balance in Table 2A should be equal to the balance of the Treasury accounts, with adjustments introduced in the appropriate rows of the table for financial transactions contained in the Treasury accounts. Eurostat suggested that a trial table should be provided to Eurostat early in 2009, based on the data reported in October 2008.

Findings and conclusions

The new presentation will be introduced by the Cyprus authorities in the April 2009 EDP notification, and a trial table will be provided to Eurostat early in 2009 (Action 4).

Discussion

The Cyprus authorities explained their approach for calculating accruals adjustment for interest and Eurostat agreed that it is appropriate.

Findings and conclusions

The Cyprus authorities will examine if an accruals adjustment might be appropriate for interest received by government, though the amounts are expected to be small (Action 5).

Discussion

The Cyprus authorities presented the source information used for deriving the accruals adjustment for military expenditure (recorded as prepayments) and Eurostat agreed that the method used continued to respect the Eurostat decision.

With respect to EDP table 2C, Eurostat had noted that the working balance (which is equal to net lending/net borrowing) is calculated from a selection of non-financial transactions from the Local Government accounts which are compiled according to commercial accounting codes and practices.

Findings and conclusions

Eurostat recommended that the Local Government accounts be systematically coded to ESA transactions and balances.

The Cyprus authorities will complete EDP table 2C with suitable detail for the year 2008 in the October 2009 notification (Action 6).

Discussion

Eurostat had noted that EDP Table 2D has only working balance and net lending/net borrowing rows completed, whereas in a past notification the Cyprus authorities had included an entry for the accruals adjustment of social contributions.

Eurostat invited the Cyprus authorities to examine the potential entries that might be made in EDP table 2D (where at present the working balance equals net lending/net borrowing), to determine if it would be appropriate to include these entries, notably for the accruals effects of social contributions.

Findings and conclusions

The Cyprus authorities will make any changes they consider necessary before the April 2009 notification (Action 7).

b) EDP Tables 3B-3E

Findings and conclusions

Eurostat requested that the Cyprus authorities check the entry for appreciation/depreciation of debt due to foreign currency movements in EDP tables 3A and 3B, to ensure that it has been correctly calculated. The Cyprus authorities will inform Eurostat of the results of this check before the April 2009 EDP notification (Action 8).

Eurostat requested that the Cyprus authorities add the entries for other accounts receivable relating to social contributions to EDP table 3E in the April 2009 notification (Action 9). This will also lead to an offsetting change in reported currency and deposits, thereby leaving the overall stock/flow adjustment unchanged.

Furthermore the Cyprus Authorities will confirm the basis of recording of pension benefits payments in the accounts of the Social Insurance Fund, to determine if there are accounts

payable to be recorded, and introduce any necessary data to the April 2009 EDP notification (Action 10).

2.2 Questionnaire related to the EDP tables

Findings and conclusions

Eurostat requested that the other accounts receivable relating to social contributions should be added to Questionnaire Table 1 for the April 2009 notification (Action 11), and that the Cyprus authorities seek to further complete questionnaires Va and Vb during 2009 (Action 11).

The Cyprus authorities offered to work towards providing a historical series for the period 1995-1999 for Table 1 (Action 12).

3. Methodological issues and recording of specific government accounts

3.1 Delimitation of general government, application of the 50% rule in national accounts

Introduction

The CSS described the division of responsibilities regarding the classification of bodies in the general government sector, and also the classification of certain units.

Discussion

The Cyprus authorities explained that the statistical classification of units is determined by CSS. A review of public units classification had been made in 2006. There were no new units identified since that point. The Cyprus authorities explained that autonomy of decision is an important criterion for statistical unit classification and that two market bodies (the Post Office and Civil Aviation Authority) are classified to the general government sector because they are included in the government budget. Public hospitals and Universities are classified to the general government sector because they are fully funded by the state budget, whilst the Cyprus Television corporation is classified as a non-financial corporation because the majority of its revenues are from advertising.

Findings and conclusions

Eurostat welcomed that there have been discussions between the Cyprus authorities to introduce a common list of government units.

3.2 Recording of specific government accounts

3.2.1 Taxes and Social Contributions

Introduction

According to regulation 2516/2000 taxes and social contributions should be recorded on an accrual basis using either assessments and declarations or cash receipts. The Cyprus authorities use a time adjusted cash method to adjust the VAT and income tax receipts onto an accruals basis.

Discussion

The Cyprus authorities noted that there have been no changes in methods for recording taxes and social contributions since end-2007 when the last questionnaire on taxes and social contributions had been reported. A time-adjusted cash method of 2 months is used for some income taxes, VAT and social contributions (the latter in the social security accounting statements) which corresponds to the administrative delay in each case. The Cypriot statistical authorities informed Eurostat that there are no tax rebates, while tax credits were abolished in 2003.

Findings and conclusions

Eurostat requested that the next reported questionnaire on taxes and social contributions be clearer as in several entries taxes marked "accrual" are actually measured with cash receipts, which are thought to correspond to an accrual-basis (Action 13).

3.2.2 Government guarantees

Introduction

There is a relatively high level of government guarantees in Cyprus. The majority of those guarantees have been provided to local government and public corporations. However, for the whole reporting period there seems to have been no calls.

Discussion

The Cyprus authorities confirmed that no calls on guarantees had taken place in the 2003-2007 period. Guarantees are largely granted on Local Government and Electricity Corporation debt. There is no system of export credit guarantees in Cyprus.

3.2.3 Capital injections, superdividends, privatisations

Introduction

General government has undertaken capital injections in all years of the period 2004-2007. There have been two large capital injections to Cyprus Airways in 2006 (reported as capital transfer) and 2007 (reported as a transaction in equity). No privatisation receipts have been reported in the last years except in 2004.

Discussion

The Cypriot authorities explained that they had identified some superdividend elements in certain large dividends paid by the electricity and telecoms corporations, and had decided to record withdrawals of equity for these elements. With regard to the Central Bank dividend payment, this payment was usually within the operating profit of the Central Bank except for one year (the dividend payment of 2004) where a superdividend element had been identified. Whilst no privatisations had taken place in 2003-2007, the Cyprus authorities drew attention to the privatisation of the Cyprus Development Bank in 2008.

Findings and conclusions

Eurostat concluded that the capital injection into Cyprus Airways, where private investors had purchased shares alongside the government in proportion to their existing holding on the same terms, should be recorded as a purchase of equity by the government.

3.2.4 Debt assumptions/debt cancellations/write-offs

Introduction

In the October 2008 notification, no debt assumptions or cancellations and write-offs have been reported for the 2004-2007 period.

Discussion

The Cyprus authorities reported that no debt assumptions, cancellations or write-offs had been undertaken by government in 2003-2007. There had however been a substantial debt cancellation programme in 2008 relating to the Public Loans Fund, and this would be recorded in the 2008 accounts.

3.2.5 Recording of EU flows

Introduction

The recording of the transaction with the EU budget seems to comply fully with Eurostat decision published on 15 February 2005 requiring that those transactions have no impact on net lending/net borrowing of general government.

Discussion

The Cyprus authorities explained that all EU transfers passed through the EU account at the Central Bank, an entirely separate account from the Treasury account. The funds in this account are drawn down to meet EU-related expenditure when it occurs, and the account itself is classified in the rest of the world sector. Transfers relating to agriculture pass through the Agricultural Development Organisation and therefore are not recorded at all in government accounts.

Findings and conclusions

Eurostat found that these arrangements continue to meet the requirements of the relevant Eurostat Decision, though the recording in financial accounts of other accounts receivable may be necessary in the future when projects incur expenditure which will only be met by a later reimbursement of structural funds.

3.2.6 PPP contracts, securitisation and sale and leaseback operations

Introduction

A PPP contract relating to Larnaka and Paphos airport is reported in Table VII in the last EDP notification. No securitisation and sale and leaseback operations have been reported. Eurostat asked the CSS about the accounting treatment of PPP contracts, any new PPP projects as well as its cooperation with the Planning Bureau of Cyprus which is responsible for the development of such projects.

Discussion

The Cyprus authorities explained the arrangements for two PPPs in the field of desalination, and Eurostat agreed that their assets should not be recorded in the government accounts. With regard to the PPP for Cyprus airports, Eurostat took note that they seemed to have the nature of service concessions, and would confirm this by examining the contract.

Findings and conclusions

The Cyprus authorities will examine before the April 2009 EDP notification if entries need to be recorded in government accounts for the transfer of the airport assets to the private partner (Action 14). The CSS will also examine the terms of the service concession contract for the Lemesos marina (Action 15).

3.3 Financial turmoil

Discussion

The Cyprus authorities explained that to date there have been no difficulties in Cyprus banks relating to the financial turmoil. It was not envisaged that government would guarantee bank borrowing or undertake recapitalisation operations.

There is a deposit guarantee agency, compulsorily funded by private banks, offering a deposit guarantee of up to EUR 40,000 (it was expected that this limit would be raised to EUR 100,000). This agency is classified to the financial corporations sector in national accounts. Eurostat briefly described the ongoing work in the relevant CMFB Task Force.

4. Other issues

4.1 ESA95 transmission programme

Introduction

Eurostat reviewed the situation regarding the tables of the ESA95 transmission programme.

Findings and conclusions

The Cyprus authorities agreed to complete the time series requirements back to 1995 for various non-financial ESA tables during the course of 2009 (Action 16). It was accepted by Eurostat that some estimation might be needed to accomplish this.

4.2 Any other issues

The Cyprus authorities explained that Cyprus pound coins are currently exchangeable to Euros until end-2009 and Cyprus pound notes until 2018, and that a prudent accounting of these will be made in the accounts of the Central Bank. It is not currently envisaged that the Central Bank will make a distribution to government relating to non-returned currency.