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Unit D-3: Excessive deficit procedure (EDP) 2

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FINAL FINDINGS

EDP dialogue visit to Cyprus

15 - 17 February 2017

Executive summary

In accordance with Council Regulation (EC) No 479/2009 of 25 May 2009 (as amended by Council Regulation (EC) No 679/2010 and Commission Regulation (EU) No 220/2014) 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 to Cyprus on 15, 16 and 17 February 2017.

The main purpose of this EDP dialogue visit was to thoroughly examine the major issues that led Eurostat to issuing a reservation on the quality of EDP data reported by Cyprus (CYSTAT) during the EDP Notification in October 2016.

In addition, several other organisational and methodological issues were discussed during the meeting:

1. In the context of the discussion on institutional arrangements and responsibilities, it was agreed that the Statistical Service of Cyprus (CYSTAT) will prepare and send to Eurostat a note on the major changes in responsibilities and procedures introduced by the Law on Fiscal Responsibility and Budgetary Framework (2014).

2. It was also agreed that CYSTAT will accelerate efforts to complete the revision of the EDP Inventory according to ESA 2010. Updated parts of the text will be sent to Eurostat when ready.

3. In the discussion about issues relating to the presentation of the reported information in EDP tables, CYSTAT was requested and agreed to (a) split the information on central government bodies in extra-budgetary funds and semi-governmental bodies in EDP Table 2A, (b) change the label for the basis of the Working Balance from "mixed" to "cash" in EDP Table 2A and from "accrual" to "mixed" in EDP Table 2D, and (c) introduce more details to the bridge table translating FIMAS codes to ESA 2010 codes.

4. CYSTAT presented in detail the Financial Information Management System (FIMAS). Eurostat requested further clarification on the accounting practices regarding the so called '14-months period' accounting procedure in FIMAS. CYSTAT agreed to provide Eurostat with a note containing detailed description of the relevant procedures.

5. In the context of the presentation of data sources and accounting practices, CYSTAT presented a more detailed version of EDP Table 3B with the appropriate adjustments for F.2 and F.8 (assets and liabilities) as well as additional reconciliation Tables 3B1 and 3B2 along with related tables (such as "table 11") of the Ministry of Finance. Eurostat suggested that and CYSTAT agreed to regularly provide such tables in the context of the EDP notifications.

6. Eurostat and CYSTAT agreed to investigate the recording of cash and checks in transit and notably the cases where government checks issued but not cashed relate to liabilities in currency and deposits or other accounts payable.

7. CYSTAT agreed to follow the recommendation of Eurostat to reclassify several FIMAS account groups currently recorded under F.2 assets according to the conclusions of the discussions.

8. In the context of the discussion on the statistical treatment of government transactions with the EU budget, it was agreed that CYSTAT will classify revenue from the EU when government is final beneficiary as capital transfers instead of current revenue. Regarding the special

accounts of the EU funds held with the Central Bank of Cyprus, Eurostat suggested CYSTAT to consider including these accounts in the government sector for statistical purposes.

In the same context, Eurostat requested CYSTAT to revisit the recording of the temporary transfer of EU funds to the government general account due to government liquidity needs in 2011 and 2012.

9. Regarding the discussions on issues related to the statistical treatment of taxes, Eurostat requested CYSTAT to examine the unpaid tax refunds of personal income tax and VAT, and correctly record them as payables in government accounts.

10. The participants discussed the statistical treatment of revenue from licences for the use of non-produced assets according to the rules of ESA2010. CYSTAT was requested to investigate the duration of the new exploration licences and apply the relevant ESA2010 rules in the statistical treatment of the related revenue (as rent spread over the duration of the contract).

11. The discussion on the delimitation of general government concluded with the agreement that CYSTAT will recalculate the 50% ratio (market/non-market test) for a Sewerage Board unit and will re-examine the classification of several regulatory authorities (NACE category 84). In the same context, CYSTAT will re-examine the nature of the revenue (fees) of sewerage boards (whether they should be considered sales or taxes) and decide accordingly about the statistical treatment of the units involved. In addition, CYSTAT will carry out the market/non-market test by excluding grants and transmit to Eurostat the updated ratios.

12. On the classification of the National Deposit Guarantee Scheme, CYSTAT agreed to follow the practice of the other Member States and classify the unit to the general government. Likewise, refundable contributions to the scheme will be recorded as F.2 or F.8 liabilities while calls would be recorded either as a tax or as an acquisition of an asset (if the contributions are refundable).

13. Regarding the statistical treatment and the reporting of information on accrued interest, CYSTAT was requested to prepare a table on adjustments for accrued interest/coupons on loans (instruments other than bonds). Likewise, CYSTAT will ensure that the relevant line on interest in EDP Table 3B will include accrued interest on debt securities and loans.

14. The participants revisited the statistical treatment of the Laiki bank bond. Eurostat requested CYSTAT to investigate the recording of the redemption of the "Laiki bond" in 2015 in FIMAS and in national accounts.

In the same context, it was agreed that CYSTAT will correct the classification of transactions related to "Laiki bonds" in 2012 and 2013 from capital transfer to interest as well as their time of recording both in EDP Tables 2A and 3B. It was also agreed that the financial crisis table will be corrected accordingly.

15. In the context of the discussion on guarantees, CYSTAT was requested to investigate the existence and the nature of standardised guarantees. For the identified cases, CYSTAT will report all the relevant information in EDP Questionnaire Table 9.4. CYSTAT will also reflect on the current reporting of standardised guarantees in EDP Table 2A.

16. As for the recording of revenue from Emission Trading Permits, CYSTAT agreed to statistically treat it as a tax.

17. The discussion on debt assumptions concerned mainly the case of the KA Finanz loans to municipalities, and in particular the recording of this operation in FIMAS. It was agreed that CYSTAT will investigate whether there is any double counting in government accounts. In the same context, CYSTAT was requested to consider recording the operation as debt assumption by central government establishing a claim of central government against municipalities.

18. CYSTAT was requested to take all the necessary measures to ensure consistency between EDP Table 3 and ESA Table 27.

Eurostat very much appreciated the co-operation and transparency demonstrated by the Cypriot statistical authorities during the meeting and the quality of the documents provided beforehand and during the meeting.

Final findings

Introduction

In accordance with Council Regulation (EC) No 479/2009 of 25 May 2009 (as amended by Council Regulation (EC) No 679/2010 and Commission Regulation (EU) No 220/2014) 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 to Cyprus on 15, 16 and 17 Feb 2017.

Eurostat was represented by Ms Madeleine Mahovsky (Head of Unit, unit D3 "Excessive Deficit Procedure II"), Mr Stylianos Pantazidis (unit D3), Mr Ante Babic (unit D3), Mr Philippe de Rougemont (unit D1 "Excessive Deficit Procedure and Methodology"), and Ms Laura Wahrig (unit D4 "Quality Management; GFS"). DG ECFIN and 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 (CBC) and the Ministry of Finance (MoF).

The previous Eurostat EDP dialogue visit to Cyprus took place on 24 and 25 September 2014.

The purpose of this EDP dialogue visit was to focus on four main issues that led to Eurostat issuing a reservation on the quality of EDP data during the EDP Notification in October 2016: the basis of the working balance of central government; source of data for receivables; EU Funds transactions; and the statistical discrepancy in EDP tables. Also, there was a more general purpose to review the implementation of ESA 2010 methodology and to ensure that the provisions of the Eurostat's Manual on Government Deficit and Debt, as well as of Eurostat's decisions and guidance notes, were duly implemented in the compilation and reporting of the EDP and Government Finance Statistics (GFS) data.

Particular attention was given to the statistical treatment of operations concerning the Cooperative Central Bank and the banking sector of Cyprus, to the classification of the Deposit Guarantee Fund (DGF), and to the examination of the reported information in the questionnaire on public corporations. Eurostat also reviewed the current developments and the statistical implications of gas/oil exploration and exploitation projects in Cyprus.

1. Statistical institutional issues

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

Introduction

The Cypriot National Statistical Institute (CYSTAT) is responsible for the compilation of the EDP notification tables, except for planned debt and deficit data, and for the compilation and transmission of the GFS tables.

In 2014, Cyprus introduced a Law (Fiscal Responsibility and Budgetary Framework Law, Law 20(I)/2014, thereafter named "the Law") transposing in the national legal system the provisions of the Council Directive 2011/85/EU on Budgetary frameworks. The Law contains several provisions as regards the procedures of statistical reporting, quality management, control and audit.

The Law provides for the creation of a new public entity, the Fiscal Council. The Fiscal Council is an independent public body whose members do not take instructions from the Government or the parliament.

Discussion

Eurostat reviewed the institutional responsibilities in place and the framework for reporting data under the Excessive Deficit Procedure (EDP) and Government Finance Statistics (GFS), and the role and responsibilities of CYSTAT, the MoF and the CBC in the production and reporting of EDP and/or GFS data.

CYSTAT confirmed that there have been no substantial changes in the institutional responsibilities concerning the compilation and the reporting of EDP data since the previous EDP dialogue visit. CYSTAT has the final role in compiling EDP data, after the Ministry of Finance and the Treasury collect non-financial and financial data (as well as the debt data) through FIMAS (Integrated Financial Management System of the Treasury of the Republic of Cyprus), and after they prepare their forecasts based on models developed by University of Cyprus.

The Cypriot statistical authorities explained that in 2014 Cyprus introduced the Fiscal Responsibility and Budgetary Framework Law - Law 20(I)/2014 - 21/2/2014 transposing, in the national legal system, the provisions of the Council Directive 2011/85/EU on Budgetary frameworks. The Law contains several provisions as regards the procedures of statistical reporting, quality management, control and audit.

Eurostat asked CYSTAT to provide a note with updated information on the institutional responsibilities of the institutions involved in the work for the EDP and GFS reporting.

Findings and conclusions

Action point 1. The Statistical Service of Cyprus (CYSTAT) will provide a note on institutional arrangements, with information on changes of responsibilities or of procedures between and within institutions. *Deadline: June 2017.*¹

- **Quality management framework**

Introduction

The problem of limited resources has been a concern for the EDP reporting of Cyprus for several years and has been pointed out in Eurostat's consecutive internal risk assessments. The lack of resources was repeatedly mentioned by CYSTAT as the reason for the delays in responding to Eurostat's requests, and became particularly evident during the October 2016 EDP notification.

Discussion

Eurostat reiterated its concerns about the limited staff of CYSTAT available for working on EDP/GFS. Eurostat noted that there have been considerable delays in several cases when implementing actions agreed during EDP dialogue visits.

CYSTAT explained that this lack of staff was very visible until recently because of the workload related to the data requests for the EU/ECB/IMF Programme. Now that the programme is over things are getting back to normal and the existing EDP team will be dealing with only with the compilation and reporting of EDP and GFS data. It was also mentioned that ESA table 27 was being compiled by staff from another unit (dealing mainly with other national accounts tables.)

However, in order to improve the existing situation, the Ministry of Finance has promised CYSTAT more resources within a year, with the end of the Programme.

Eurostat urged the Cypriot statistical authorities to ensure sufficient staffing resources in order to guarantee the continuity and quality of EDP/GFS statistics.

In the same context, Eurostat observed that no representative of CYSTAT is regularly attending the EDPS working groups and other Eurostat fora related to EDP and GFS, and stressed the importance of experts from CYSTAT attending such meetings at least twice a year.

In the discussion on issues related to quality control, CYSTAT explained that quality control procedures were introduced after the 2014 Fiscal Responsibility and Budgetary Framework Law. According to CYSTAT, the EDP compilation system is already quite robust as the FIMAS (the integrated IT system for reporting all central government, budgetary and extra-budgetary funds as well as social security funds transactions) ensures the adherence to standardised reporting rules in these general government subsectors. Regarding local government units and semi-government organizations, standardised reporting is now ensured through specific written forms and procedures. Training on ESA 2010 principles and accrual accounting is being provided by CYSTAT to the accounting staff of these entities. CYSTAT has also drafted a relevant Manual, and circulated it to the staff of these units.

¹ Completed

According to CYSTAT, the above arrangements should ensure that data flows from upstream data providers are standardized and well documented. CYSTAT explained that, currently, the coverage of these entities (in particular local government units) is not 100% but CYSTAT and MoF are working in order to achieve full coverage and very good quality of data.

1.2. Data sources and revision policy, EDP inventory and its annexes

1.2.1. EDP inventory

Introduction

CYSTAT has sent to Eurostat the EDP inventory (2014 edition) with the new template partly filled in and still based on ESA 95. This consolidated inventory of sources and methods of Cyprus has been published on Eurostat's website². The inventory, with a new list of general government units (Annex I), provides information on data availability and data sources for all subsectors of the general government sector. In addition, it contains in Annexes (II-V): (a) bridge tables between Public Accounts Items and ESA95 codes as well as NACE codes, (b) example of calculation for issuance of government securities above/below nominal value, (c) statement of outstanding guarantees (2013), (d) loans from public funds (for 2013).

Discussion

CYSTAT informed the participants that, following some changes in the procedures of EDP reporting, the EDP Inventory needs to be updated accordingly. However, due to forthcoming activities for the preparation of the April EDP notification, the fully updated EDP Inventory according to ESA 2010 would be available only for the October Notification 2017.

The Eurostat delegation stressed the importance of updating the inventory for changes in procedures and methodological changes due to ESA 2010. In addition, Eurostat pointed out that the work can be accelerated if CYSTAT will send parts of the document when they are ready for revision by Eurostat.

Findings and conclusions

Action point 2. The Statistical Service of Cyprus (CYSTAT) will revise the EDP Inventory according to ESA 2010 and to remarks made during the visit and send it to Eurostat for comments (updates of parts of EDP Inventory may usefully be sent as soon as they are ready) and publication. *Deadline: EDP Notification October 2017.*³

1.2.2. Data sources

Introduction

Budget reporting is the main data source for compiling the accounts of the **State (central government) as well as social security funds**. The data reported in the budget are on a cash basis. The most recent year for which final data on central government are available for the April notification is the year (n-1). The Statistical Service has on-line access to the National Treasury accounts, having thus the ability to monitor all transactions on a daily basis. It is important to

² [Cyprus EDP Inventory according to ESA 95](#)

³ Completed. The [Cyprus EDP Inventory according to ESA 2010](#) is published on Eurostat's website

note that the transactions are monitored on an accounting basis, which does not correspond to the evolution of deposits in bank accounts and currency.

Budget reporting is also the main data source for the compilation of the accounts of the **extra-budgetary funds**⁴. Data based on interim reports (reporting figures for the January-December period) for year n-1 for extra-budgetary funds are available in the April (n) notification. The semi-government organisations are also included in this subsector, for which data are produced by the Cyprus Statistical Service.

Information on net lending/net borrowing of the **local government** is obtained directly from the units (municipalities and community boards) comprising this subsector.

The audited accounts of the Ministry of Labour and Social Insurance are the source of information on the accounts of the subsector **social security funds**. The final audited accounts for each of the six funds comprising the social security funds subsector are available within 6 months after the closing of the year.

Discussion

The discussion of this section was based mainly on the presentation by CYSTAT of the accounting and IT system FIMAS (Financial Information Management System). According to the presentation, FIMAS is an integrated system, the backbone of all information systems currently used by the Treasury. In fact, it is the final repository of all records of the Treasury.

FIMAS is used by all accounting units of all ministries and government departments. CYSTAT uses the system to derive information for the compilation of EDP/ GFS data. As for the input into the system, all transactions of government enter the system coded by a unique identification serial number, detailed description of the transaction, and the code of the specific department involved. The transactions enter the system in real time.

Regarding the coverage, the system covers 18 ministries and government departments, 21 extra-budgetary funds of central government as well as the 6 social security funds. It contains around 18500 expenditure budget codes and revenue budget codes.

The data in the system are available to users in 20 days from the end of the reference period. CYSTAT, after downloading the data sets, encodes with the use of bridge tables all transactions according to ESA 2010 codes (though not of sufficient detail currently) as well as NACE and COFOG. The encoded data with pivot tables are mapped and used for filling in ESA tables. The produced information is monthly, quarterly and annual on a cash basis.

CYSTAT explained how the 12-digit budget accounting code structure is used by the accountants in the ministries translated (with bridge tables) into ESA 2010 codes.

It was mentioned that some information on the transactions of semi-governmental units is available to Treasury only through excel tables. There are plans for incorporating this information at a later stage into FIMAS (the European Commission is currently providing technical assistance on this and other related issues).

⁴ The extra-budgetary units and the semi-government organisations are listed in the [Annex I to the Cyprus EDP Inventory of data sources and methods](#).

CYSTAT explained that the coding of the transactions downloaded from FIMAS according to ESA 2010 has been updated not only for non-financial accounts, but also for financial accounts. This is a new development that will improve the quality of the data.

Eurostat appreciated the detailed presentation of CYSTAT, asked for clarifications, and made suggestions on some of the issues mentioned in the presentation.

Eurostat stated that a split of the B.9 of other government bodies reported in EDP Table 2A into extra-budgetary funds and semi-governmental bodies would improve the analytical and information content of the table. CYSTAT agreed to provide this breakdown by the next EDP notification.

FIMAS does not currently cover local authorities and semi-governmental units. According to CYSTAT, the incorporation of local government transactions into the system is too challenging at present.

Following the above discussion about the nature of the produced EDP information, Eurostat indicated that CYSTAT should consider changing in EDP Table 2A the current label for the basis of the working balance from "mixed source" to "cash", and in EDP Table 2D from "accrual" to "mixed basis".⁵

In the same context the discussion tackled the following issue:

- ***Taxes and subsidies and detail in the bridging to ESA 2010***

On the information on taxes and subsidies, Eurostat asked whether the split between taxes/subsidies on products and on production is correctly done. According to CYSTAT they are split up to 2-digits of ESA 2010 codes. During the discussion it became clear that for some products and industries further detail is needed in order to correctly fulfil the requirements of the ESA 2010 transmission programme/compilation of national accounts.

Eurostat suggested that it would be useful to introduce in the bridge table used by CYSTAT in translating FIMAS codes to ESA 2010 codes more details (where necessary) in order to make clearly and accurately the distinction for example between taxes and subsidies on products and production as well as social transfers in kind (both of which were considered to be a priority). It was also noted that a quick identification of D.74r and D.92r from S.212 was not possible, hence further detail in the coding would enable a correct reporting of EU flows (which are not currently neutralised when government is not the final beneficiary).

It was noted that some transactions were missing allocation (and thus needed manual coding and that transactions were generally assigned ESA (95) codes at an aggregate level only (1-digit).

- ***End of year adjustment and 13th and 14th period***

The discussion then focused on the issue of the accounting period that holds for government transactions which CYSTAT and the MoF were requested to clarify.

According to the MoF, although the fiscal year covers 12 months, there is an accounting year covering 14 months (the months of fiscal year plus two months of the following year). MoF

⁵ See more on this under the section 2.2 *Basis of the working balance for central government* (p. 17)

clarified that this practice is necessary due to observed delays in some payments (which should result in the recording of other accounts payable).

In replying to Eurostat's questions, the MoF clarified that data collected in January and February for year N are shifted back and added to the data for December of year N-1.

CYSTAT and Ministry of Finance provided specific examples to explain the functioning of the method used. Thus, they explained that all appropriations of December are recorded in December, but for the delayed transactions on which information is collected only in January and February, the Treasury makes an adjustment in its April Report of the following year.

For all ministries a cut-off date (on December 12th) applies, after which there is no possibility to record transactions for the fiscal year ending end-December. However, there is the problem with the 13th month salary, which civil servants receive along with the 12th salary of the year in December. Thus, there is a kind of an artificial 13th period.

By 12 December, ministries/accountants should declare whether they would have anything else originally appropriated for the current year after the cut-off day. If yes, the appropriation is shifted to the period starting from 13 December of year N-1 and ending in February of year N.

The 14-months accounting year allows accountants to complete to the extent possible the fiscal year, clear the reserve accounts, and close the inter-ministerial accounts.

Invoices of year N-1 which are received with delay (i.e. after the cut-off day of December 12th), they are paid in year N. In the Treasury Report, they are reported in Statement 3.2. for outstanding liabilities of the fiscal year. Arrears are reported in Statement 3.1. of the same Report.

Findings and conclusions

Action point 3. The Statistical Service of Cyprus (CYSTAT) will show, in EDP Table 2A, a split of the B.9 of other central government bodies into extra-budgetary funds and semi-governmental bodies. *Deadline: EDP Notification April 2017.*⁶

Action point 4. The Statistical Service of Cyprus (CYSTAT) will revise the current label for the basis of the Working Balance from "mixed source" to "cash", in EDP Table 2A and from "accrual" to "mixed basis" in EDP Table 2D. *Deadline: EDP Notification April 2017.*⁷

Action point 5. The Statistical Service of Cyprus (CYSTAT) will introduce, where necessary, in the bridge table translating FIMAS to ESA 2010 more detail (e.g. 2-digit or 3-digit codes of ESA2010) (e.g. to distinguish between taxes/subsidies on production and on products). *Deadline: June 2017.*⁸

Action point 6. The Statistical Service of Cyprus (CYSTAT) will provide a note explaining the so-called '14-period' accounting procedure in FIMAS, focussing on the accounting practice and on the statistical implications for the working balance. *Deadline: EDP Notification April 2017.*⁹

⁶ Completed

⁷ Completed

⁸ In progress

⁹ Completed

- ***Accounts receivable***

Continuing the discussion on data sources, Eurostat brought up the issue of the relatively small amounts reported in EDP tables under other accounts receivables given the volume of crediting transactions as well as the small size of the amounts reported under other accounts payables given the volume of debiting transactions. Also, the volume of OAR were small compared to the volume of OAP.

CYSTAT explained that it has adopted a prudent policy approach by recording all the payables but not doing so for receivables indicating that there is no way to know if they will ever be collected.

Eurostat requested that CYSTAT should make an effort to revise EDP tables and the relevant government accounts to report corrected figures for both accounts receivables and payables.

In particular, Eurostat observed that for the extra-budgetary units, since reported figures on payables/receivables in EDP Table 2A are identical to those reported in the EDP Table 3B, it might be assumed that no other transactions are being recorded in financial accounts. Given that there was no discrepancy between non-financial and financial accounts in EDP, it can furthermore be assumed that no accrual is undertaken for the extra-budgetary units mentioned in the EDP inventory.

Before the mission CYSTAT provided a set of new EDP Tables 3A and 3B. As explained by CYSTAT, these revised EDP tables contain additional information and corrections for 2015 and past data mainly on currency and deposits (F.2), loans (F.4), and other accounts receivable/payable (F.8).

As mentioned by CYSTAT, this additional information deemed necessary to be reported in order to fully coincide with the reconciliation tables prepared by the National Treasury (Reconciliation table 11, from deficit to debt for central government).

Eurostat pointed out that this additional information included in the new EDP Table 3B (and 3A) should be provided to Eurostat with the appropriate adjustments for F.2, F.4 and F.8 (receivables/payables) as presented during the discussion.

Findings and conclusions

Action point 7. The Statistical Service of Cyprus (CYSTAT) will revise EDP tables and underlying government accounts to include corrected amounts for accounts receivable and accounts payable. *Deadline: EDP Notification April 2017.*¹⁰

Action point 8. The Statistical Service of Cyprus (CYSTAT) will provide a new and modified EDP Table 3B as presented and further discussed during the mission, notably adjusting recordings in F.2 as well as F.8 assets and liabilities. *Deadline: EDP Notification April 2017.*¹¹

¹⁰ In progress

¹¹ Completed

- ***Additional working documents***

Lack of clarity and the poor information content of the by CYSTAT to Eurostat submitted EDP notification tables during the October 2016 notification round, was one of the reasons that triggered the expression of reservation by Eurostat on the quality of the EDP data reported by Cyprus.

During the meeting, CYSTAT provided a significant number of additional documents including tables for reconciliation like Tables 3B1, 3B2 (extended EDP Table 3 with more details) and 'table 11' from the Ministry of Finance (which links Treasury Accounts with Government bank accounts and FIMAS accounts). This helped considerably clarify the process of compiling EDP data in Cyprus.

In responding to the requests of Eurostat, CYSTAT presented and explained Table 3B1 (with data explaining the contribution of deficit/surplus and other factors to the changes in debt levels as well as the consolidation of debt for central government) and Table 3B2 with information on the adjustments, that is the differences between reconciliation and table 11 of the Treasury. In the presentation of these tables CYSTAT analysed the reconciliation table 11 of the Treasury.

Eurostat appreciated the presentation by the Cypriot statistical authorities and indicated that these additional tables (including table 11 of the Treasury) should be submitted to Eurostat with the EDP tables during the EDP notifications.

Findings and conclusions

Action point 9. The Statistical Service of Cyprus (CYSTAT) will routinely provide additional reconciliation tables: Tables 3B1 and 3B2 and related tables such as the reconciliation table provided in the meeting as well as 'table 11' from the Ministry of Finance, when submitting EDP tables. *Deadline: EDP Notification April 2017.*¹²

- ***Working balance and government accounts with the Central Bank***

During the discussion that followed the presentation of the new EDP 3A and 3B Tables as well as Tables 3B1 and 3B2, Eurostat identified a discrepancy between the balance of government accounts with the Central Bank of Cyprus and the relevant figures included in the working balance of EDP Table 2A.

CYSTAT explained that this discrepancy was due to un-cleared checks sent to the Central Bank (payments not cashed yet) and un-cleared checks received from the Central Bank (receipts registered in Treasury cash registry but not yet recorded as receipt in the accounts of the central bank). CYSTAT explained that the main problem with the accounting treatment of non-cleared checks is due to the way accountants record the Central Bank statements in FIMAS.

In addition there was some uncertainty regarding the classification of some groups of accounts. Although the mission clarified the classification of many of them, CYSTAT will still need to work on this area to correctly distinguish AF.2 assets from other instruments. In particular, Eurostat suggested that CYSTAT should check and monitor with the help of the Treasury the differences between the government account with the central bank and how its movements were being recorded in the relevant accounts in FIMAS. Eurostat indicated that it is important for

¹² Completed

CYSTAT to clarify how the issued but not cashed checks of government and the Central Bank of Cyprus are treated in their accounting systems.

From its side Eurostat offered to examine with the possible help of the EDPS WG the statistical recording of cash in transit. In addition, Eurostat recommended CYSTAT to consider reclassifying some FIMAS accounts (notably the account groups 44, 54, 55, 56, and 67) according to the conclusions reached after the extensive discussion of the issue.

Findings and conclusions

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. *Deadline: EDP Notification April 2017.*¹³

Action point 11. Eurostat (with possible assistance from the EDPS WG) and CYSTAT will determine jointly how to record cash and cheques in transit, and notably whether government cheques issued but not yet cashed represent a liability in currency and deposits (F.2) or in other accounts, payable (F.8). *Deadline: September 2017.*¹⁴

Action point 12. The Ministry of Finance will provide to Eurostat the complete Chart of Accounts of FIMAS. *Deadline: February 2017.*¹⁵

Action point 13. The Statistical Service of Cyprus (CYSTAT) will reclassify FIMAS accounts currently recorded within (A)F.2 assets as appropriate following the discussions during the DV.

- From the reconciliation table, FIMAS account group 54 should presumably be moved to the adjustment in EDP Table 2A (F.8), with an impact on B.9;
- FIMAS account group 44 should be reported as F.2 or F.8 liabilities (for 'consignments');
- FIMAS account group 55 should be recorded as F.4 assets.
- Further clarification is needed for FIMAS account groups 56 and 54.
- FIMAS account group 67 should be recorded as F.2 liabilities of the Treasury and F.2 asset of EBF (these amounts consolidate when presenting EDP Table 3B).

*Deadline: EDP Notification April 2017.*¹⁶

Action point 14. The Statistical Service of Cyprus (CYSTAT) will screen FIMAS account group 44. Those amounts that are expenditure not yet paid (payables impacting B.9) should be separated from those that are F.2 liabilities (consignments). *Deadline: First results EDP Notification April 2017; complete results Notification October 2017.*¹⁷

¹³ Not completed

¹⁴ In progress

¹⁵ In progress

¹⁶ Completed

¹⁷ In progress

2. EDP reporting – Analysis of the EDP Tables and related Questionnaires – follow-up of the October 2016 EDP notification

Introduction

The October 2016 EDP notification process was not completed due to special circumstances. Therefore, the discussion on a series of technical issues was not concluded and because of this exceptional situation Eurostat expressed a reservation on the quality of the EDP data reported by CYSTAT. The text of the reservation on Cypriot EDP data read:

"Eurostat is expressing a reservation on the quality of the data reported by Cyprus in relation to a series of technical issues, such as the recording of EU flows, the basis for the working balance of central government, incomplete use of source data for accrual reporting and the absence of reporting of statistical discrepancy in EDP tables, which were not clarified in a satisfactory manner during the October 2016 data assessment. Eurostat will investigate these issues with the Cypriot statistical authorities."

Main issues:

(a) Recording of EU flows

(b) Basis of the working balance of central government

(c) Source data for receivables

(d) Statistical discrepancy in EDP tables

2.1. Recording of EU flows

Introduction

Cyprus received EUR 272.9 million (1.5% of GDP) in 2015 for various EU projects relating to regional policy (54.7%), to agriculture (31%), and to R&D (7.7%). In the same year Cyprus paid EUR 142.8 million as contributions to the EU budget.

In the October 2016 EDP notification, Eurostat inquired CYSTAT about the limited information reported in the EDP Questionnaire table on EU flows. Eurostat presumed at that time that this could be related to the classification of the relevant paying authority outside the general government sector.

Discussion

CYSTAT indicated that the Cyprus Agricultural Payments Organisation was classified within the general government. However, in order to deal with the timing difference between receipts and payments, and due to differences between the fiscal year and the crop year (cash vis-à-vis accruals), CYSTAT decided to exclude from the system the receivables and the final payments to the beneficiaries.

The Cypriot statistical authorities confirmed that the impact on government deficit related to expenditures carried out by the government on behalf of the EU is broadly neutralised to the extent that the amounts received from the Commission are kept in a dedicated bank account at the Central Bank, which is outside the Treasury account.

Receipts from the EU enter the working balance in the National Treasury's Financial Report (Final Accounts) only after the expenditure has been carried out by the beneficiary government unit and the claim for reimbursement checked by the Treasury services, which is judged by the Treasury to entail a limited lag of about 1 to 2 months.

During the discussion, CYSTAT was requested to describe the procedures regarding the accounting treatment of the transactions of government with the EU budget as some aspects of these procedures (e.g. transferring of cash from the EU fund accounts with the Central Bank to the government general accounts). Eurostat was of the view that these needed to be further clarified.

CYSTAT indicated that, for the programming period 2007-2013, there are 4 accounts with the Central Bank of Cyprus, each one being specific to the concerned EU fund. Likewise, for the Programming period 2014-2020 there are 5 specific accounts held with the Central Bank.

In both cases, the inflows from the EU budget have the form of advances (for the first Programming period) or Initial and Annual Pre-financing (for the second Programming period). All advance payments as well as the amounts of initial and annual pre-financing are deposited to the specific account of the relevant EU Fund.

Likewise, interim payments made by the EU budget after the approval of the submitted payment claims by the Managing Authorities to the EU budget are deposited to the relevant accounts of the EU funds held with the Central Bank.

The payment claims submitted to the EU budget are based on the certification of expenditure made by the government (funding of operational programmes by the government budget). The certification of expenditure entails a transfer of cash from the EU fund accounts with the Central Bank to the government general account.

In relation to Programming period 2007-2013, CYSTAT confirmed that the Central Bank was requested by the government to transfer all cash payments from the EU budget received by the specific EU fund accounts to the government general account in 2011 and 2012 because of the liquidity problems of the Cyprus economy.

Eurostat made a series of comments and suggestions following the description of CYSTAT.

First, regarding the statistical treatment of revenue from the EU budget when government is the final beneficiary, Eurostat indicated that the amounts involved should be divided between investment grants, receivable (D.92r) and current international co-operation (D.74r) as appropriate.

Second, CYSTAT should consider including within the perimeter of central government the special EU Funds' accounts held with the Central bank of Cyprus

Third, regarding the transfer of funds from the EU Funds' specific accounts to the government general account (for funds relating to the first Programming period), CYSTAT should examine how these transfers were statistically treated and reported in the EDP tables. Eurostat noted that in the reporting of the years 2011 and 2012, no adjustments were made in the EDP Table 2A. If the transfer of the funds were to be confirmed, the necessary adjustments (impacting B.9) should be carried out for these years (in historical EDP and GFS).

Finally, Eurostat requested CYSTAT to record advance payments and claims exceeding payments made by the EU budget as F.8 (payables and receivables respectively).

In responding to Eurostat's question as to whether there have been any disallowances in recent years, CYSTAT confirmed that there have been no disallowances.

Findings and conclusions

Action point 15. The Statistical Service of Cyprus (CYSTAT) will reclassify government revenue from the EU (i.e. when government is final beneficiary), where necessary, as capital transfers (D.92r) instead of current revenue (D.74r). *Deadline: EDP Notification April 2017.*¹⁸

Action point 16. The Statistical Service of Cyprus (CYSTAT) will consider including statistically the EU Funds' special bank account at the CBC in the Government sector in national accounts. *Decision and motivation by the EDP Notification April 2017. Possible implementation by the EDP Notification April 2017 dependent on information provided by Central bank of Cyprus.*¹⁹

Action point 17. The Statistical Service of Cyprus (CYSTAT) will verify what was recorded in F.2 and in the Working Balance in relation to the temporary use of EU Funds for Government liquidity purposes, in 2011 and 2012, in EDP Tables (Table 2A), and ensure a proper statistical treatment. *Deadline: EDP Notification April 2017.*²⁰

Action point 18. The Statistical Service of Cyprus (CYSTAT) will record EU Funds transactions as F.8 (claims towards EU budget) where appropriate and not in F.2. *Deadline: EDP Notification April 2017.*²¹

2.2. Basis of the working balance of central government

Introduction

According to the EDP inventory, the accounting basis for the working balance in EDP Table 2A is mixed. However the accounting basis for all budgetary transactions is cash since the data are extracted from FIMAS (the financial online accounting system of the National Treasury of the Republic of Cyprus). This created doubts regarding the accuracy of the label for the reported working balance in EDP Table 2A.

Discussion

Eurostat recalled that in the discussions in the context of the October 2016 notification, when CYSTAT was requested to clarify the accounting basis of the working balance reported in EDP Table 2A, CYSTAT explained that the working balance is based partly on cash and partly on accrual data. Furthermore, it was explained that the observed differences between EDP tables and ESA Table 27 (mainly in currency and deposits) was due to timing differences, with ESA Table 27 being finalised at a later stage than the EDP tables.

However, during the discussion, CYSTAT stated that the working balance is in fact on a cash basis and the indication "mixed" in EDP Table 2A is a term describing the immediate (monthly) recording of the transactions relating to specific claims and or obligations.

¹⁸ Completed

¹⁹ In progress

²⁰ Not completed

²¹ Not completed

Summarising the discussion on the accounting basis of the WB, Eurostat pointed out that after the explanations of CYSTAT, we would expect that the figures on other accounts receivable/payable reported in EDP Tables 2A and 3B should not to be equal and as discussed before, the necessary adjustments should be made so that reporting of F.8 as F.2 is avoided.

2.3. Source data for receivables (for a more detailed discussion see above under Source data)

In the October 2016 EDP notification, Eurostat observed that in Table 4.1.1 zero values were reported for other receivables relating to non-financial transactions. CYSTAT explained that '*any outstanding revenues as they appear in the financial report Statement 3.1 are not used when compiling GFS statistics*'. Eurostat commented that an accrual adjustment might be used from this information of Statement 3.1. CYSTAT replied that this suggestion of Eurostat will be considered for future reporting.

In the discussion CYSTAT confirmed that outstanding arrears of revenue appearing in the financial report Statement 3.1 are not used by CYSTAT for the EDP reporting.

Eurostat repeated its suggestion for CYSTAT to use, where possible, an accrual adjustment from the stock information of Statement 3.1.

CYSTAT pointed out that in fact there is no stock of outstanding revenue (in annual data) as the realised revenue is booked to the relevant period (month) without significant delays.

2.4. Statistical discrepancy in EDP tables

Introduction

In the October 2016 EDP notification, as in the previous notifications, CYSTAT reported zero statistical discrepancy in EDP Table 3B while this was not the case for ESA Table 25, where some discrepancy between non-financial and financial transactions was reported. Eurostat has observed that the discrepancy usually appears to be relatively high in the first notification in April and falls in the second notification in October.

Furthermore, in the October 2016 EDP notification Eurostat indicated that the observed differences between ESA Table 27 and EDP Table on currency and deposits, particularly in 2015, and net incurrence of liabilities (implicit transactions in Maastricht debt) for the whole reporting period might have resulted from setting the difference between B.9 and B.9F in EDP tables equal to zero.

In explaining the lack of discrepancy between non-financial and financial transactions, CYSTAT referred to the identical source used for the compilation of both sets of statistics.

Discussion

CYSTAT confirmed that the zero statistical discrepancy is mainly due to the identical source used for both financial and non-financial data. Eurostat observed that, as agreed, CYSTAT is expected to report statistical discrepancy reflecting at least the corrections for the appreciation/depreciation of foreign currency debt.

CYSTAT agreed to further investigate the issue and indicated that it might also be worth investigating whether there are other statistical discrepancies to be reported.

3. Follow-up of the previous EDP dialogue visit

Introduction

The last EDP dialogue visit to Cyprus took place on 24-25 September 2014. Of the 14 action points agreed during the visit all but two (action points 6 and 11) were completed.²²

- **Action Point 6 from DV 2014:** Following further investigation of data sources and administrative arrangements, CYSTAT will introduce an accrual recording of tax refunds from the April 2015 notification.

In the request for clarification of the April 2016 EDP notification it was indicated by CYSTAT that this is not enforceable.

Discussion

During the discussion Eurostat pointed out that this action point is still important and therefore CYSTAT should make all the necessary efforts to implement it.

CYSTAT indicated that the issue is complicated not because of difficulties from the side of CYSTAT to implement the action point but because of the involvement of several government departments.

Eurostat insisted that CYSTAT should investigate the issue of the unpaid tax refunds of personal income tax and VAT by the Cypriot tax offices and coordinate all the involved government services.

CYSTAT observed that in any case tax refunds are automatically assessed and paid immediately to those that have submitted complete tax declarations and the relevant amounts are recorded in FIMAS.

Findings and conclusions

Action point 19 (ref. Action point 6 from last DV). The Statistical Service of Cyprus (CYSTAT) will investigate the (unpaid) tax refunds of personal income and VAT taxes (including arrears), stocks and flows, in order to record them correctly as payables in EDP Table 2A. *Deadline: EDP Notification October 2017.*²³

- **Action Point 11 from DV 2014:** Eurostat will provide advice on the statistical classification of the hydrocarbon exploitation partnership agreement by end November 2014.

Discussion

CYSTAT clarified that the issue concerned only the exploitation of reserves. According to CYSTAT there has been no progress regarding this issue. No new licences for exploitation of reserves were issued.

²² See [Final findings of the EDP dialogue visit to Cyprus, 24-25 September 2014](#), pp. 14 and 22.

²³ In progress

Eurostat mentioned that in the ECFIN post programme surveillance report it is stated that expectations are intensified for gas explorations in the Cyprus' exclusive economic zone. CYSTAT pointed out that they are not aware of any new licenses issued by government.

The discussion then focused on the appropriate statistical treatment of such licences. Eurostat pointed out that according to ESA2010 exploration licences should usually be treated as rent with the non-produced asset (with zero value) created at inception and the rent spread over the life of the licence. In case of a licence of unlimited duration, it should be treated as disposal of non-produced asset.

CYSTAT observed that the recent signature bonus for the new licences was statistically treated as rent spread over the duration of the relevant contract. As for the old signature bonus which was treated as non-produced non-financial asset, CYSTAT agreed to record it as rent.

Findings and conclusions

Action point 20 (ref. Action point 11 from last DV). The Statistical Service of Cyprus (CYSTAT) will investigate the duration of new exploration licences and then treat them statistically as appropriate, according to ESA2010: usually as rent (with a non-produced asset of zero value created at inception and rent spread over the life of the licence), or as a disposal of a non-produced asset if they are unlimited. In accordance with this, the treatment of the 2013Q1 licence sale will be changed by the next benchmark revision at the latest. *Deadline: EDP Notification October 2017.*²⁴

4. Methodological issues and recording of specific government transactions

4.1 Delimitation of general government sector

Introduction

Before the mission, CYSTAT sent an updated document on the statistical definition of general government.

According to this document, the general government sector consists of: (a) the central government (comprising budgetary units, extra-budgetary units-accounts and the semi-government units), (b) the local government (comprising 6 districts, 39 municipalities and 349 village authorities), and the social security subsector (encompassing 6 social security services providing entities).

As mentioned in the EDP Inventory, sector classification of units follows the guidelines of the Manual of Government Deficit and Debt while the qualitative criteria introduced by ESA 2010 for the market/non-market distinction of the activity of a unit are also taken into consideration.

Discussion

Eurostat made several remarks on the figures reported in the *Questionnaire on government controlled units classified outside general government*.

²⁴ In progress

It should be noted that CYSTAT did not send the *Questionnaire on government controlled entities classified outside general government* for the year 2015 (deadline end 2016). Eurostat was informed that CYSTAT will fill in this questionnaire every two years depending on the availability of the required data. CYSTAT finally provided the questionnaire at the end of January 2017.

CYSTAT described the method used for the calculation of the 50% ratio. As explained, a series of final annual accounts of all entities deemed to be controlled by government are analysed in detail before concluding on whether their net operating income covers more than 50% of their production costs.

For the new units, CYSTAT confirmed that if they are not covered by FIMAS the needed information is received from the Business Register. In addition, as explained by CYSTAT, when a new unit is classified in the general government sector, the register is updated.

Eurostat asked for further details regarding the formula used by CYSTAT for the calculation of the 50% ratio. During the discussion there was an uncertainty whether the current procedure included grants in the numerator of the formula.

The correct performance of the 50% test on a regular basis was considered essential by Eurostat.

In the *Questionnaire on government controlled units classified outside government*, Eurostat recommended CYSTAT to carry out again the market/non-market test for the Sewerage Board of Paralimniou (line 9 of the Questionnaire).

The case of Sewerage Boards was further discussed with the participants examining whether the fees collected by these entities and which enter the formula for the market/non-market test as revenue represent actually revenue from sales or could they be considered as a form of tax. It was agreed that both institutions (Eurostat and CYSTAT) will reflect on this.

Commenting on the last *Questionnaire on government controlled units classified outside government* submitted by CYSTAT, Eurostat made a remark regarding the NACE classification of some of the reported units. In particular, Eurostat requested CYSTAT to review the units with NACE code O, which according to ESA 2010 are producing non-market production and hence should be classified within general government.

In the same context, Eurostat recommended CYSTAT to re-examine the classification of several regulatory authorities under NACE category 84. Eurostat expressed the view that reclassifying some or even all of them in S.13 might be necessary. In addition, Eurostat drew the attention of CYSTAT to the classification of the Hunting Fund and the Restructuring Fund which might be altered if a social policy element or fiscal operations is identified in their activities.

Eurostat recalled that the *Questionnaire on government controlled units classified outside government* for the year 2015 was not transmitted (deadline end-2016) and urged CYSTAT to send the questionnaire on an annual basis including figures on liabilities of the reported units.

Findings and conclusions

Action point 21. The Statistical Service of Cyprus (CYSTAT) will redo the market/non-market test for a Sewerage Board unit (line 9 in the *Questionnaire on government controlled units classified outside general government*). *Deadline: EDP Notification April 2017.*²⁵

Action point 22. The Statistical Service of Cyprus (CYSTAT) will verify the NACE classification reported in the *Questionnaire on government controlled units classified outside government*. Remaining NACE O entities should be classified within general government given that, in ESA2010, NACE O entities are considered to be non-market. *Deadline: EDP Notification April 2017.*²⁶

Action point 23. The Statistical Service of Cyprus (CYSTAT) will re-examine the classification of the following regulatory authorities, NACE category 84, and classify them in S.13 if necessary (for instance because of quasi-judicial powers): Electronic, communication and postal authority ID 127259, Radio-television authority ID 124520 and Energy regulatory agency ID 127260. The Statistical Service of Cyprus (CYSTAT) will re-examine as well the classification of the Hunting Fund ID 151417 and the nature of unit ID 124511 (Restructuring Fund), which possibly has a social policy purpose. *Deadline: EDP Notification April 2017.*²⁷

Action point 24. CYSTAT and Eurostat will reflect on how to statistically treat Sewerage Boards, in the light of whether fees are sale or a form of tax. *Deadline: September 2017.*²⁸

Action point 25. The *Questionnaire on government controlled units classified outside general government* will be transmitted annually. CYSTAT will include liabilities in the questionnaire. *Deadline: End of 2017.*²⁹

Action point 26. The Statistical Service of Cyprus (CYSTAT) will adapt the calculation method for the market/non-market test by excluding grants: subsidies on production D.39, selected subsidies on products, current transfers D.7, and capital transfers D.9. An updated calculation will be submitted to Eurostat. *Deadline: EDP Notification April 2017.*³⁰

4.1.1. Deposit Guarantee Scheme (DGS)

Introduction

The issue of the classification of DGS was discussed in the framework of the relevant discussion of the classification of such units in all Member States. Eurostat and CYSTAT reached an agreement on this issue involving also the Central Bank of Cyprus in providing all the available information which is necessary for the EDP reporting.

Discussion

CYSTAT explained that the DGS fund is classified outside the government sector because it is autonomous, having its own revenue. The contributions by banks are set taking into

²⁵ In progress

²⁶ In progress

²⁷ In progress

²⁸ In progress

²⁹ Completed

³⁰ In progress

consideration the estimated actual risk of the participating banking institutions. Financial institutions are free to join complementary institutional protection scheme (IPS) set by the banking industry or even other deposit guarantee schemes operating in other Member States

Eurostat pointed out that according to the relevant law, the participation of local financial institutions in DGS is compulsory, and so do payments of fees by the participating units. Furthermore, Eurostat observed that DGS determines if other schemes like IPS (that does not yet exist) are compliant with the law. In cases of banks joining those schemes, it is DGS that evaluates contributions to the scheme and decides whether additional contributions should be paid to the national guarantee scheme.

Eurostat expressed the view that all such schemes should be classified in general government as they provide insurance which does not have market characteristics. As for the statistical treatment of the transactions of the scheme, Eurostat indicated that the contributions (if refundable) should be considered as liability of the scheme (F.2 or F.8) whereas calls on the scheme should be treated as tax and capital transfer to the receiving institution.

Findings and conclusions

Action point 27. The Statistical Service of Cyprus (CYSTAT) and Eurostat agree that the DGS should be classified in general government. CYSTAT will record the contributions to the scheme that are considered refundable as F.2 liabilities or as F.8 liabilities. Calls will be considered either as a tax matched by a capital transfer, or as an acquisition of an asset, depending on circumstances. *Deadline: EDP Notification October 2017.*³¹

Action point 28. CBC will assist CYSTAT in collecting all relevant information related to the DGS needed for the EDP reporting. CBC will also provide information on past and present calls on the DGS, together – where possible – with estimated recoverable amounts. *Deadline: EDP Notification October 2017.*³²

4.2 Implementation of accrual principle

4.2.1 Taxes and social contributions

Introduction

The Cyprus statistical authorities use a time adjusted cash method to adjust VAT and income tax receipts onto an accruals basis. No changes in methods for recording taxes and social contributions since end-2007 have been reported. A time-adjusted cash method of 2 months is used for some income taxes, VAT, and one month for social contributions. There are neither tax rebates nor tax credits.

In the most recent Questionnaire on taxes and social contributions, a 1-month time adjustment is indicated for D.611 and D.613.

In ESA Table 2, it is visible that actual social contributions are entirely recorded in S.1314. In ESA Table 27 S.1314 data, neither transactions nor stocks are recorded for F.8L and for F.8A. Transactions occur only in the fourth quarter and they are very small in comparison to revenue

³¹ Completed

³² In progress

recorded. The EDP questionnaire Table 5 shows no stock or transactions in F.89 related to D.611/D.613.

In the EDP inventory, no accrual adjustment is mentioned for social contributions. However, it is mentioned that accounts of S.1314 are on accrual basis and that social contributions paid in January relate to December and are hence recorded in Q4.

Two issues that have been discussed in the past were shortly revisited in this mission: the statistical recording of tax refunds and the immovable property tax.

Discussion

After a short description of the practices followed on recording taxes and social contributions, CYSTAT clarified that taxes collected in January and February that are linked to transactions that took place in the preceding year are shifted back to the relevant period.

In the discussion on the reporting of information on taxes and social contributions in EDP Questionnaire Table 5, Eurostat observed that no information on stocks for taxes and social contributions is provided in Questionnaire Table 5.

CYSTAT stated that most of the social contributions are paid within the reference period and therefore no accrual adjustment is needed. According to CYSTAT's view accrual adjustment is necessary only for the contributions for self-employed.

Eurostat indicated that it is important to have information on stocks of taxes and social contributions reported in the Questionnaire Table 5. Moreover, it would be useful to have this information reported in ESA Table 27 preferably on a quarterly basis (by using an appropriate interpolation method).

Eurostat suggested CYSTAT to change the presentation of the accounts of social security funds in order to better reflect information on the compensation of civil servants.

Regarding the **Immovable Property Tax**, CYSTAT recalled that this tax was reformed with the objective to improve the fairness of the tax burden and to increase the efficiency of the tax administration (requirement of the Economic Adjustment Programme).

The amounts collected from this tax were recorded in a single account of the Lands and Surveys Department. This account contains one-off payments as well as recurrent payments. Cypriot authorities then use a simple formula (based on historical data) to separate the collected amounts in three categories: (50% for taxes on the use of land, buildings of other structures utilized by enterprises in production (D.29); 25% for fees as a payment for the service provided by the Lands and Surveys Department (P.1); and the remaining 25% as tax on capital transactions payable on the purchase or sale of non-financial assets (D.214).

Concerning tax refunds, CYSTAT confirmed the obligation of government to avoid increasing arrears in tax refunds. According to CYSTAT, Government has managed to reduce arrears in the last two years. Eurostat underlined that the time of recording of tax refunds should be according to the accruals principle.

Findings and conclusions

Action point 29. In the EDP Questionnaire Table 5, the Statistical Service of Cyprus (CYSTAT) will report stocks of receivables for social contributions (D.613cs) and taxes. CYSTAT will also report such stocks in ESA Table 27, including on a quarterly basis (using an appropriate

interpolation method). In general, the accrual of VAT, income taxes and D.613cs should be carried out on a quarterly basis. *Deadline: EDP Notification April 2017.*³³

Action point 30. The Statistical Service of Cyprus (CYSTAT) will change the presentation of the accounts of the social security funds by introducing compensation for civil servants (D.1p, for the total amount) matched by the elimination of the current transfer expenditure (D.75) currently recorded and by a D.73 flow from central government to social security funds for the difference. *Deadline: EDP Notification April 2017.*³⁴

4.2.2 Interest

Introduction

The calculation of accrued interest and its recording in national accounts was discussed in the past with CYSTAT (for example in EDP dialogue visits of 2012 and 2014). It was then understood that CYSTAT accrues interest at the end of the reference year and they allocate equally the accrued amount over the quarters of the reference year.

Furthermore, in the 2014 EDP dialogue visit, Eurostat discussed the change in the recording of interest payments under swap arrangements foreseen by ESA2010. In that meeting CYSTAT confirmed that the methodological change in the recording of interest payments from swaps would have had an insignificant impact on general government deficit. In addition, CYSTAT confirmed that swaps were not in use in Cyprus.³⁵

In the draft updated QFAGG manual, CYSTAT indicates performing accrual of interest through other flows.

Discussion

Eurostat asked CYSTAT to describe the statistical treatment of the Laiki bond in national accounts and in particular to explain the big amounts for interest reported for 2013 and 2014 in EDP tables. CYSTAT explained that the significant amounts recorded for interest paid and accrued in 2013 and 2014 were explicitly due to the Laiki bond. CYSTAT also confirmed that the interest was paid at the issuance of the bond meaning that the bond was issued at a discount.

Concerning the statistical treatment of this operation, CYSTAT clarified that the amount for the bond paid by government exceeded by EUR 100 million the value of the shares received by government in return. Thus, this amount was recorded in government accounts as capital transfer.

Eurostat pointed out that the amounts of discounts (as well as premiums) should be spread over the maturity of a bond and reported accordingly in EDP Tables 2A and 3B. It was thus agreed that CYSTAT will follow this practice when recording transactions in bonds.

Likewise, Eurostat underlined the importance of receiving information on the adjustments for accrued interest for instruments other than bonds as well and CYSTAT agreed to provide such information on loans.

³³ In progress

³⁴ Completed

³⁵ See [Final findings of the EDP dialogue visit to Cyprus, 24-25 September 2014](#), p.14.

In the same context, Eurostat indicated that in ESA Table 27 accrued interest adjustments should be reported while CYSTAT should report in the line for interest of EDP Table 3B accrued interest on debt securities and loans alike.

Eurostat asked CYSTAT about the recording of the redemption of the Laiki bond in FIMAS and national accounts in 2015. CYSTAT observed that it was recorded as a reduction in short term debt securities and agreed to report the relevant details to Eurostat.

In addition, Eurostat pointed out that the amount paid by government in excess of the value of received shares should be treated as interest rather than capital transfer. According to Eurostat, CYSTAT should correct the recording of this transaction accordingly in EDP Tables 2A and 3B.

In the same context, Eurostat requested CYSTAT to make the necessary changes in the financial crisis table to reflect the above corrections regarding the interest expenditure for Laiki bond. Eurostat urged CYSTAT to fill in part C of the table on financial crisis. As it was mentioned the information of part C of this table is particularly important in identifying and eliminating possible inconsistencies in the information reported in the other parts of the table.

Findings and conclusions

Action point 31. The Statistical Service of Cyprus (CYSTAT) will resume the past practice of spreading the premiums and discounts (above and below par) amounts in EDP Table 2A and 3B over the maturity period. *Deadline: EDP Notification April 2017.*³⁶

Action point 32. The Statistical Service of Cyprus (CYSTAT) will send to Eurostat a table on adjustments for accrued interest/coupons on loans (i.e. instruments other than bonds). *Deadline: EDP Notification April 2017.*³⁷

Action point 33. The Statistical Service of Cyprus (CYSTAT) will ensure that, in ESA Table 27, financial transactions reflecting accrued interest adjustments are recorded, and verify that the line in EDP table 3B for interest rate adjustments includes accrued interest on debt securities as well as loans. *Deadline: EDP Notification April 2017.*³⁸

Action point 34. The Statistical Service of Cyprus (CYSTAT) will verify how the redemption of the "Laiki bond" was recorded in 2015 in FIMAS and in national accounts. *Deadline: EDP Notification April 2017.*³⁹

Action point 35. The Statistical Service of Cyprus (CYSTAT) will correct the classification of transactions related to "Laiki bonds" in 2012 and 2013 from capital transfer to interest as well as their time of recording (thus impacting B.9), both in EDP Tables 2A and 3B. *Deadline: EDP Notification April 2017.*⁴⁰

Action point 36. The Statistical Service of Cyprus (CYSTAT) will correct the financial crisis table, notably for the interest expenditure for "Laiki bonds" in 2012 and 2013, and will include interest for Laiki for 2014 as well as (indirect liability) for 2015 and 2016, and for Cooperative bank in 2014 and 2015 (indirect liability). Eurostat recommends that CYSTAT completes part C

³⁶ Completed

³⁷ In progress

³⁸ Completed

³⁹ Completed

⁴⁰ Completed

of the table “government support to financial institutions” (financial crisis table), which facilitates identifying and eliminating inconsistencies. *Deadline: EDP Notification April 2017.*⁴¹

4.3 Recording of specific government transactions

4.3.1 Guarantees

Introduction

In the 2014 EDP visit Eurostat discussed the issue of standardised guarantees in the context of ESA2010. CYSTAT informed Eurostat that there have been standardised guarantee schemes related to certain categories of housing loans, which, however, have never been called.

It was agreed that for those standardised guarantees that closed the relevant amount should be recorded as expenditure at the time of call. For the guarantees that continued, CYSTAT would develop a method of calculation of the percentage of loans to be called.⁴²

In the previous notification, CYSTAT confirmed that no standardised guaranteed have been granted by government.

Discussion

CYSTAT confirmed that there have been no standardised guarantees granted by general government in 2016. However, for the guaranteed granted in previous years, CYSTAT clarified that provisions (payables) are recorded in national accounts. Likewise for non-performing loans guaranteed by state it was confirmed that they are recorded as payable when called.

Findings and conclusions

Action point 37. The Statistical Service of Cyprus (CYSTAT) will confirm the existence and/or nature of standardised guarantees. After confirmation, CYSTAT will report all standardised guarantees in EDP Questionnaire Table 9.4 and underlying government accounts, as required, and will adapt EDP Table 3B (with entries under the line net incurrence of other liabilities rather than other accounts payable). CYSTAT will also reflect on whether the current way of introducing standardised guarantees in EDP Table 2A is appropriate. *Deadline: EDP Notification April 2017.*⁴³

4.3.2 Debt assumptions, debt cancellations and debt write-offs

Introduction

In the 2014 EDP dialogue visit CYSTAT confirmed that there has been only one case of debt assumption. The case concerned loans of around EUR 100 million in total provided by KA Finanz AG of Austria to municipalities and sewerage boards with government guarantee.

⁴¹ Completed

⁴² See [Final findings of the EDP dialogue visit to Cyprus, 24-25 September 2014](#), p.20.

⁴³ Completed

The discussion on the issue concluded then that the operation involving KA Finanz should not lead to entries to EDP Table 2A but be considered as restructuring of a loan.⁴⁴

Discussion

CYSTAT updated the participants on the developments and the statistical treatment of this transaction. The Government of Cyprus arranged to pay creditors on behalf of the original debtors (local government) according to their original repayment schedule. Local authorities did not fulfil the terms and KA Finanz initiated accelerated repayment. Central Government assumed the debt in May 2014, paid off the debt to KA Finanz in 2016, and local government (the original debtors) will pay their debt to central government according to their original repayment schedule.

Eurostat inquired CYSTAT about the recording of the transactions involved in FIMAS. Eurostat was concerned about the transactions being counted twice.

Furthermore, Eurostat suggested CYSTAT to consider the recording of the transaction as debt assumption with the central government having acquired a claim against local government.

Findings and conclusions

Action point 42. Regarding KA Finanz loans, the Statistical Service of Cyprus (CYSTAT) will investigate in FIMAS how these transactions are recorded in order to avoid any possible double counting (in expenditure and revenue). *Deadline: June 2017.*⁴⁵

Action point 43. The Statistical Service of Cyprus (CYSTAT) will consider the option to record the KA Finanz operation as debt assumptions by central government benefiting local government, together with the acquisition of a claim by central government against local government. *Deadline: June 2017.*⁴⁶

4.3.3 Capital injections in public corporations

Introduction

The mission revisited the cases of capital injections in public corporations. Two cases were already discussed during the 2014 EDP visit: the Cyprus Airways and the Cyprus Cooperative bank (CCB). Both were recorded as capital transfers.

CYSTAT confirmed that there were no other cases of capital injections on public corporations.

⁴⁴ See [Final findings of the EDP dialogue visit to Cyprus, 24-25 September 2014](#), pp 12 and 20. It is recalled that the case concerned loans of around EUR 100 million in total provided by KA Finanz AG of Austria to municipalities and sewerage boards with government guarantee. In 2014, the government of Cyprus reached a deal with the Austrian bank to repay the loans in instalments while the state would recover the loan repayments from the original debtors according to their loan repayment schedule. According to the schedule the repayment would have been completed by the end of 2015.

⁴⁵ Completed

⁴⁶ Completed

4.3.4 PPPs and concessions

Introduction

CYSTAT provided information on PPPs contracts in the context of the last exercise on the provision of data on contingent liabilities to Eurostat. Eurostat was informed that CYSTAT is now using the PIM model for the calculation of the value of capital for all projects under PPP and concessions.

Discussion

CYSTAT confirmed that there are no new PPPs and concessions. There were no new PPPs in the last three years due to lack of sources for funding such projects. The main currently running projects are those of Larnaca and Paphos Airports which are concessions. The project for the Limassol marina is in the pipeline, but delayed. Regarding the Limassol marina, it was noted that this was to be a concession by a public corporation (Cyprus Ports Authority). It was noted that this should be adequately taken into account in the super-dividend testing of the Cyprus Ports Authority.

The Treasury informed the participants that in assessing such projects they were conducting the tests for risks and rewards and checking the economic ownership and carry out the 50% test.

Findings and conclusions

Action point 38. The Statistical Service of Cyprus (CYSTAT) will update EDP Questionnaire Table 11 with all PPPs and report as well the total. *Deadline: EDP Notification April 2017.*⁴⁷

4.3.5 Other: emission trading permits, privatization, securitisation

Discussion

Privatization. Eurostat recalled that, during the last EDP visit to Cyprus in 2014, CYSTAT noted that there were plans to privatize several public entities, such as CyTA (telecoms), EAC (electricity), CPA (commercial activities of ports), as well as real estate and land assets.

Eurostat enquired about recent developments in this field. CYSTAT answered that nothing has materialized so far. The privatization unit has been established (and it is treated as a general government unit) but it has not yet started any operations and there has been no income from privatizations yet.

Emission trading permits. Eurostat also enquired about the treatment of emission trading permits. CYSTAT pointed out that the amounts (revenue) involved are negligible, and therefore they are currently not recorded. However, CYSTAT confirmed that they monitor the situation and the amounts will be recorded if they become significant.

Eurostat pointed out that in any case and regardless of the size of the amounts, revenue from emission trading permits should be recorded as a tax.

⁴⁷ Completed

Findings and conclusions

Action point 39. The Statistical Service of Cyprus (CYSTAT) will treat the revenue from Emission Trading Permits as a tax (D.29). *Deadline: EDP Notification April 2017.*⁴⁸

5. Other issues

5.1. ESA Transmission Programme (Tables 2, 9, 11, 25, 27 and 28)

5.1.1. Recording of several transactions in GFS

Discussion

Eurostat asked CYSTAT to revise the presentation of assets and liabilities in the ESA Tables and align it to EDP Tables.

Eurostat inquired why in ESA Table 2 and 11 there are no changes of inventories, e.g. for strategic oil reserves. CYSTAT replied that this was reclassified into general government in 2014 on the advice of ESTAT.

Eurostat inquired about the nature of local government F.63_64_65 transactions, CYSTAT informed that it was a funded pension scheme for local civil servants. Eurostat indicated that further investigation was needed for the provident funds of the local government.

Eurostat reiterated that that the stocks of taxes and social contributions should be also adjusted in EDP Questionnaire Table 5.

According to CYSTAT, most of the social contributions are on cash basis/FIMAS accounting basis without accrual adjustment/adjustment for non-collectible amounts. CYSTAT explained that the rationale for not applying a time lag is that there are severe disincentives for not paying the actual social contributions (employees' social contributions being retained at source). A (non-zero) time adjustment was only appropriate for compulsory households' contributions by the self-employed (D.613cs).

Immovable property tax is recorded according to an accounting formula. CYSTAT wanted to change the splitting towards 50% for the use of land and 50% as tax on transactions. The idea is to broaden the tax base, decreasing the tax rate and re-evaluate the property (which lost value due to financial crisis). Immovable property tax is reduced to abolishment in 2017.

Eurostat noted that, in the financial accounts of government, there were no regular other flows visible on F.5A. This indicated that AF.5A was not being recorded at market value. Eurostat stressed that efforts should be made to record AF.5 and F.5 at market value. In particular, Eurostat noted that, in the financial accounts of general government in 2012, the capital injection to Laiki was recorded as F.5, with a commensurate increase in AF.5 assets, followed in the next two quarters by a decrease of AF.5A for Laiki to zero value. Eurostat recommended that CYSTAT reanalyse the operation and recording in view of the anomalies observed with the current recording.

⁴⁸ Completed

Findings and conclusions

Action point 40. The Statistical Service of Cyprus (CYSTAT) will reconsider the recording of income of the Lands and Survey department. Any tax income related to transactions will be recorded within D.214b (economic function codes KS/O). *Deadline: EDP Notification April 2017.*⁴⁹

Action Point 41. The questionnaire on taxes and social contributions will be transmitted annually, when changes occur. The presentation in the questionnaire of the time of recording for actual social contributions (D.611+D.613) other than contributions by the self-employed (D.613cs) will be adapted to better reflect current practice. *Deadline: end 2017 and on-going.*⁵⁰

Action point 45. The Statistical Service of Cyprus (CYSTAT) will examine the recording of changes in inventories, notably for the military supplies as well as stocks of oil and gas. Changes in inventories should be recorded in the relevant ESA Tables. *Deadline: EDP Notification October 2017.*⁵¹

Action point 46. The Statistical Service of Cyprus (CYSTAT) will verify the recording of the provisions related to ‘provident funds’ in financial and non-financial accounts (local government). *Deadline: EDP Notification April 2017.*⁵²

Action point 47. The Statistical Service of Cyprus (CYSTAT) will analyse equity positions to ensure that transactions and stocks are recorded at market value. *Deadline: June 2017.*⁵³

Action point 48. The Statistical Service of Cyprus (CYSTAT) will analyse the counterpart and exact nature of some flows of social benefits in cash D.62p in S.1311 related to contributions made by central government. *Deadline: June 2017.*⁵⁴

Action point 49. The Statistical Service of Cyprus (CYSTAT) will ensure the consistency of EDP Table 3 and ESA Table 27. *Deadline: EDP notification April 2017 and on-going.*⁵⁵

5.1.2. Euro coin

Discussion

ECB raised the issue of the statistical treatment of euro coin in EDP/ GFS. In the view of Eurostat euro coin are obligations of the Treasury transferred to the central bank. In some Member States, according to the existing institutional arrangements, euro coin do not constitute an obligation of the Treasury. In any case, seigniorage revenue is recorded in the Central bank books as an obligation to the Treasury.

CYSTAT informed the participants that in Cyprus according to a Law recently voted in the parliament euro coin are recognised as an obligation of the State as from October 2016. Therefore, CYSTAT will revise the relevant series from 2008 to 2017 and report the new series with the EDP 2017 data transmission.

⁴⁹ Not completed

⁵⁰ Not completed

⁵¹ In progress

⁵² Not completed

⁵³ In progress

⁵⁴ In progress

⁵⁵ In progress

Findings and conclusions

Action point 44. The Statistical Service of Cyprus (CYSTAT) will revise the recording of euro coin as a liability ((A)F.29) of central government (together with a matching asset) and revise series from 2008 onwards. *Deadline: EDP Notification October 2017.*⁵⁶

⁵⁶ Completed

Annex. List of participants in the EDP dialogue visit to Cyprus on 15 – 17 February 2017

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Ms Despina Kyprianou

Ministry of Finance

Mr George Panteli,

Ms Nayia Pospori,

Mr Lefkos Papadopoulos

Central Bank of Cyprus

Mr Chrisostomos Tsountas

Eurostat

Ms Madeleine Mahovsky,

Mr Stylianos Pantazidis,

Mr Ante Babic,

Mr Philippe de Rougemont,

Ms Laura Wahrig

ECB

Mr Robert Gadsby

DG ECFIN

Mr Duy Huynh-Olesen,

Mr Dorin Emil Mantescu

Annex: Draft agenda of the EDP dialogue visit to Cyprus
15-17 February 2017

- 1. Statistical institutional issues**
 - 1.1. Review of Institutional responsibilities in the framework of the EDP data reporting and government finance statistics compilation**
 - 1.2. Data sources and revision policy, EDP inventory and its annexes**
- 2. Follow-up of the previous EDP dialogue visit**
- 3. EDP reporting – Analysis of the EDP Tables and related Questionnaires – follow-up of the October 2016 EDP notification**

Main issues:

 - (a) Recording of EU flows**
 - (b) Basis of the working balance of central government**
 - (c) Source data for receivables**
 - (d) Statistical discrepancy in EDP tables**
- 4. Methodological issues and recording of specific government transactions**
 - 4.1 Delimitation of general government sector**
 - Register of government controlled entities not classified to general government
 - 4.2 Implementation of accrual principle**
 - 4.2.1 Taxes and social contributions
 - 4.2.2 Interest
 - 4.2.3 Military expenditure
 - 4.3 Recording of specific government transactions**
 - 4.3.1 Government transactions concerning the Financial Crisis-review
 - 4.3.2 Fiscal-structural reforms
 - 4.3.3 Sale and lease back operations
 - 4.3.4 Guarantees
 - 4.3.5 Debt assumptions, debt cancellations and debt write-offs
 - 4.3.6 Capital injections in public corporations
 - 4.3.7 Dividends, super dividends
 - 4.3.8 PPPs and concessions
 - 4.3.9 Other: emission trading permits, privatization, securitisation
- 5. Other issues**
 - 5.1. ESA Transmission Programme (Tables 2, 9, 11, 25, 27 and 28)**
 - 5.2. Any other business**